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Global Trends and Indian Industry

Report on the Seminar:
The Union Budget and Economy

CONTENTS

Editorial—Some Highlights

General Economic Scene 433

Agricultural Development in Tamil Nadu 446

Industrial Development in Tamil Nadu 448

Education, Science and Health 450

Employment and Labour Relations 451

Other Items 451

MIDS News 453

September Development Seminar
Global Trends and Indian Industry 454
—P. SRINIVASAN

Summary of Discussion 475

Report on the Seminar
The Union Budget and Economy 477

Book Review 484

EDITORIAL - SOME HIGHLIGHTS

I. General Economic Scene

State

Climate and Prices

The first half of August which this editorial covers was wet and cool all over the state. An upper air cyclone circulation over north Tamil Nadu and associated westerlies led to continuing rain from the south west monsoon during this period. Chengalpattu—MGR district received widespread rain, with Kancheepuram and Trivellore recording 5 cm each for several days. Madras received a rainfall of 6.7 cm during this period. The effect of this good south west monsoon on the water situation in the state is referred to later. On prices, CSO's statistical abstract for February 1991 reports that the index number of consumer prices for industrial workers rose by 2 percentage points to 187 in October 1990 but increased by 6 points to 193 in November, due to 8 point rise in food prices to 1999 in November, the rise in October being 3 points. Why food prices rose when there was an adequate harvest in the state and country and when the states' stock of foodgrains was adequate needs probing. The index number of consumer prices for agricultural workers rose by a sharp 22 percentage points to 779 in November, after falling by 5 points in October to 757 and by 2 points in December to 781. The November steep rise is due to the steeper rise of food prices by 30 percentage points to 833 and by 4 points in December to 781. The same question is posed as above as to the rise in food prices in the rural areas. The consumer price index numbers for urban non manual workers for these months also records mild price rises: in Madras by 1 point in October 1991, by 4 points in November and 2 points in December at 173; in Coimbatore by 1 point in October, 4 points in November, and 2 points in December at 167; in Madurai by 3 points in October, 5 points in November and 1 point in December at 173; in Salem by 3 points in November and 2 points in December at 164; and in Tiruchirapalli by 2 points in October, 5 points in November and 1

point in December at 169. November was the month which broke the small price rise for all 5 cities. The retail prices of essential commodities have been rising since July, pulses selling from Rs. 15-17 a kg (+Rs. 2-5 a kg) free market sugar rose by Rs. 50 a quintal and by 85 p a kg. The reasons given by the market is that this is the effect of the devaluation and the budget. The real reason is profiteering and black marketing.

Power

Power in the state in August was normal, with the remaining 25 per cent power cut for HT industries being lifted and reduced the demand cut by 10 per cent from 30 per cent to 20 per cent for those industries. The coal position in August continued to be tight. The government reiterates its decision to allow the private companies to generate power for a group of industries. The State Electricity Board announces that one more 500 MW unit will be added to the north Madras plant to meet the state's growing power demand.

For the country, the power situation continued to be normal with plentiful rains in Kerala, Karnataka, AP, continuing into the North East area. The power perspectives are such that in a radical departure from the 1956 industrial policy resolutions, the union government has allowed 100 per cent foreign equity participation for setting up power plants in the country and has proposed substantial modifications in the Electricity Act 1948 to hasten the private sector's participation in the power sector. The bill embodying these two important changes is being introduced in Parliament. To attract the private sector, the Act relaxes the debt equity norm from 3: 1 to 4:1, increases the guaranteed rate of interest on equity from 12 per cent to 16 per cent, allowing capitalisation of interest during construction on actual cost and increases the licensing period from 20 to 30 years. With the transmission and distribution system in a mess, with most state electricity boards being in the red as a result of unremunerative tariffs, poor recoveries and leakages, there is need for a revision of the power tariff, without which the private sector and foreign investment will not come in. The State Electricity Boards of 5 states—UP, Bihar, WB, Orissa and MP—owe an incredible Rs. 536 crores to the Rural Electrification Corporation is one example of this financial mess. Further the guarantee by the government of the return on capital, as has happened elsewhere, leads to over capitalisation and the passing on unjustified costs to the consumers and so requires government machinery to verify the producers' claim as to the correct value of capital. And to obtain foreign exchange resources, a balance between the foreign component in equity and debt should be maintained, so that the equity portion comes in foreign exchange, while the debt part is raised domestically so that there is a net outflow of foreign exchange to finance the import of plant and machinery. West Bengal government states that it has plans to set up 2 power plants of 210 MW each in Durgapur under the state owned Durgapur Project Ltd., (DPL) at a cost of Rs. 800 crores. Whether DPL will be able to raise these funds from the capital market, is, however, doubtful and other options should be explored. The Department of Non Conventional Energy reports that though the potential for decentralised power generation through mini micro hydel projects is around 5000 MW, the actual utilisation is not even 5 per cent. 11 mini-macro hydel

projects with a total capacity of 10.3 MW are to be commissioned during 1991-92 as part of the plan to add about 200 MW through this system during the VIII Plan. This too should be opened to the private sector which could have access in the finance package that has been worked out in the Indian Renewable Development Agency along with some soft loans already sanctioned. The Annual Report for 1990-91 of the ministry of power states that in 1990-91 power generation increased by 7.8 per cent at 97.4 per cent, with hydel activity 113.5 per cent of its target and thermal 92.6 per cent.

Water

As a result of the copious rains in the catchment areas of the cauvery in Karnataka as forecast in the last month's bulletin, Mettur touched its full level of 120 feet, and a storage of 93.4 tmcft on August 13. Inflows into Mettur trebled during the first week, so that water was diverted to Coleroon from the surplusing Mettur water and water was also released into the Bay of Bengal. Following heavy rains in the Cauvery delta, tanks in many villages — Adanoor, Konamadikkulam, Erudhikkonpattikulam, Othapattikulam, Pannapattikulam, Mayanoor — were breached, flooding the villages. The Periyar dam also was full to capacity (136 ft), and work on strengthening the dam structure so that it can hold 152 ft is under way. The Vaigai dam is also full, with an outflow of 1000 cusecs.

Town Planning and MRTS

Three integrated bus terminals are being planned in the outskirts of Madras and at Koyambedu, Madhavaram and Alandur to relieve traffic congestion in the city and to shift the terminals of all long distance buses out of the city to these 3 terminals. The target data for the Madras Beach-Chepauk section of the Mass Rapid Transit System (MRTS) has been postponed to December 1992, as the National Projects Construction Corporation needs this time to complete the work. With Rs. 13 crores sanctioned for this year, work on three stations, Parktown, Chintadripet and Chepauk should be taken up and completed by the indicated date next year.

State Budget and Cooperatives

The state budget to be presented in the first week of September will be making some difficult decisions. The first one will be the meeting of the deficit of Rs. 320 crores caused by the cheap liquor shops. To date the appeal to the union government to help has not resulted in a positive answer. The major state subsidies are in the fields of power, civil supplies and transport. Will the state government have the political support to touch these areas. When the previous government tried to reduce the food subsidy by raising the price of rice, there was such strong opposition that it was dropped. In power, the annual subsidy is Rs. 500 crores. Can the totally free power supply to the farm sector be modified? Transport also presents a difficult choice, with a strong public opinion against raising fares. There are few avenues of reducing additional tax revenues—which almost can amount to a few hundred crores of rupees. Under these conditions, will the Annual Plan at Rs. 1600 crores be presented? These are some of the imponderables facing the government. With increase in the tempo of farm activities, the cooperative sector is readying itself to extend Rs. 275 crores short term credit to farmers. A target of Rs. 60 crores has

aggregate holdings to SEBI and the stock exchanges. The acquirer has to purchase shares from the public in the same proportion through negotiations which will make price sensitive information public and reduce the scope for manipulation. The intention of the minimum price provision is to prevent the understanding of the "official" negotiated price from affecting the consideration paid to the small shareholders. But this could be evaded and instead SEBI getting into the operations,should not broad guidelines be laid down with which the market could operate. Again it will be difficult to prove who is acting in concert with whom in takeovers and this could be got over by SEBI authorising a lead merchant banker to see to the fulfilment of the code. Again the good provision for shareholders rather then the Board of Directors decide on share transfers could be got over by various devices which makes shareholders voting at the EGM a mere formality. Hence would it be better to dilute and limit the power of the Board on share transfers approvals. Finally the code ropes institutions and mutual funds on negotiated purchases. Here the success of the code will depend on the fair and autonomous behaviour of the institution enjoying vast discretionary powers.

Economy

In the first half of August, the main economic development was further to the revised trade policy announced on July 4 reported in the last issue of the Bulletin. The government on August 13 placed on the table of Parliament a comprehensive statement on the Trade Policy incorporating the July 4 and subsequent announcements. The main features are : a) export oriented units (EOUs) and Export processing units (EPUs) are granted a package including Exim scrips at the rate of 30 per cent of their net foreign exchange earnings, a reduced 50 per cent of customs duty for their products sold in the domestic market, the permission to sell 25 per cent of their products in the domestic market if Indian raw materials are used above 30 per cent and otherwise 15 per cent, and EOUs and EPUs being entitled to the international price scheme for supply of steel, along with a system of automatic approvals in line with the new industrial policy and automatic clearances of capital goods imports if covered by foreign equity, duty free access and inputs for exports—all requests to be cleared within 15 days where input-output norms specified as they are for 540 items to be increased to 1000 items by October 31, 1991, b) a reduction in the extent of licensing, and the number and types of licenses, c) in the case of exports 14 items ranging from castor oil, CTVs to railway coaches, jute and iron ore are decanalised immediately, d) in the case of imports, the items to be decanalised and put under OGL range from stick worms and sodium barate to old ships and platinum and palladum; e) 14 decanalised import items ranging from jute pulp to soap stocks has to be made available against Exim scrips, f) public sector trading houses like STC and MMTC are to be reoriented to become international trading houses capable of operating in a competitive global environment, and of serving as effective instruments of public policy and of providing adequate support services to small scale and cottage industries, g) established exporters are allowed to open foreign currency accounts in approved banks and raise external credit and pay for export related imports from

trust is not wise. Second, the fertiliser price rise of 40 per cent following the withdrawal of the fertiliser subsidy has been modified in two ways: a) the small and marginal farmers who consume 30 per cent of the fertilisers, operate 76.3 per cent of operational holdings covering 2.9 per cent of the cultivated area, are to be completely exempted from the price rise : b) the fertiliser prices to be reduced from 40 per cent to 30 per cent, reducing the budgets estimated saving from Rs. 1800 crores to Rs. 1380 crores. In addition on the first decision of exempting small and marginal farmers from even this reduced price rice, the fertilisers subsidy will have to be increased by Rs. 405 crores, which means on the two proposals, the budget estimated savings will have to be reduced by Rs. 800 to Rs. 900 crores. This is a thoroughly bad decision. Politics may be the art of the possible, but this whole agitation was master minded by the large farmers who are the lobby represented in Parliament. They pay no agricultural income tax and now they have succeeded in reducing their indirect contribution to the exchequer, despite the fact that they are the ones who will profit from the rise in the pregovernment prices of foodgrains which has been promised to compensate for the subsidy reduction. Other salient features of the minister's reply to the general debate on the budget included, admission that the budget would involve some cost push factors but with strict fiscal and monetary discipline, the inflation rate would be lower than last year's 13 per cent : on LPG as there had been no increase in its price since February 1986, while the prices of other petroleum products had gone by 45.8 per cent (diesel) motor spirit (98.2 per cent) and even kerosene (12.5 per cent), LPG prices had to be raised. Even so the subsidy on LPG will decrease from Rs. 906 crores to Rs. 780 crores: the proposed fiscal and industrial policies are essential to increase employment opportunities in the economy, the entry of multinationals into Indian economy was justified and in this connection, it was pointed out that despite the increase in annual expenditure on Science and Technology from Rs. 20 crores in the I Plan to Rs. 8500 crores during the VII Plan, the output in terms of technology development was not commensurate with the increase in expenditure: further the brain drain from our IITs was 40 to 60 per cent and it is the technology developed by these graduates working abroad that we are importing : and the IMF loan being negotiated is necessary and needed, it was pointed out. The Securities and Exchange Board of India (SEBI) is to widen the reach of its regulations (in code) to cover any section of the capital market and financial sector, bringing under its fold sales and purchases by investors, NRIs, financial institutions and all corporate units. The high power committee headed by M. J. Dharwana in its report has recommended an integrated stock market system rather than setting up additional stock exchanges as the only means of achieving a systematic improvement in the stock market system. SEBI's draft code for regulations of takeover of listed companies is wide ranging covering the companies, their subsidiaries, directors, shareholders and relatives, mutual funds, financial institutions, merchant bankers, trusts, each of whom could be acting in concern. The important points in the code are a) diesel power to the public, b) open offer to small share holders at a defined price, and c) the shifting of the power to refuse share transfers from the Board of Directors to share holders. There will be transparency in the requirement that the acquirer should disclose his

aggregate holdings to SEBI and the stock exchanges. The acquirer has to purchase shares from the public in the same proportion through negotiations which will make price sensitive information public and reduce the scope for manipulation. The intention of the minimum price provision is to prevent the understanding of the "official" negotiated price from affecting the consideration paid to the small shareholders. But this could be evaded and instead SEBI getting into the operations,should not broad guidelines be laid down with which the market could operate. Again it will be difficult to prove who is acting in concert with whom in takeovers and this could be got over by SEBI authorising a lead merchant banker to see to the fulfilment of the code. Again the good provision for shareholders rather then the Board of Directors decide on share transfers could be got over by various devices which makes shareholders voting at the EGM a mere formality. Hence would it be better to dilute and limit the power of the Board on share transfers approvals. Finally the code ropes institutions and mutual funds on negotiated purchases. Here the success of the code will depend on the fair and autonomous behaviour of the institution enjoying vast discretionary powers.

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such accounts as well as credit their export proceeds to such accounts, h) the Chief Controller of Imports and Exports is being redesignated as the Director General of International Trade and his functions will be reoriented, i) the Board of Trade is to be restructured, and j) many items are being shifted from OGL to the limited permissable list. This is an impressive list of reforms but the government controls still run through every item and the scope for arbitrary decisions and corruption is not diminished. There is a little more freedom for exporters which is needed with the proposed new export incentives and delicensing and rationalisation measures, but the implementation of the many concessions need to be watched. Now with this package, exporters could do their share. Then there was the decision of RBI to dispense with the requirement of the exchange control department approval for import applications for imports above Rs. 2 crores in place of the limit in the case of importer-exporters of Rs. 5 crores. Further, RBI will consider waiver of cash margin where importer-exporter is able to obtain advance payment against his future exports or suppliers credit. There is also to be a relaxation of the 200 per cent margin requirement for OGL exports in specific thrust areas and an increase of credit flow to the exporters. Thus the various restrictions on importers-exporters are now being gradually relaxed. In regard to other developments, the National Water Board has decided to set up a standing committee for continuous monitoring of the implementation of the National Water Policy adopted in 1987 and for this the states have been asked to provide periodic feedback on the progress of implementation of the policy. The government on August 6 decided to remove all restrictions on interest rates on debentures and public sector bonds. The interest rates on such debt instruments will hereafter be governed by market forces. Finally as a postscript to the Finance minister's renewed plea in the budget to cut waste in government expenditures. There was presented in August a series of reports by the Comptroller and Auditor General of the result of the audit of 101 government companies which reveal losses of Rs. 1727 crores. In addition the reports call attention to the idle capacity, infructious expenditures, costly delays and expensive misjudgements in the ministries of information and broadcasting, steel and mines, transport, textiles, urban development, water resources, welfare, agriculture, commerce, energy, defence, finance and external affairs. The defence ministry, shielded from public or parliamentry scrutiny and criticism is held to be guilty, of huge wasteful expenditure running into hundreds of crores of rupees on imported equipment, cost over runs and the bungled modernisation of the Vijayanta T72 tanks. The reformulated Jawahar Rozgar Yojana provided only a few days employment to a quarter of its targeted beneficiaries even in the first year. The diversion of funds in the second and subsequent years is bound to be large. There are the specific cases of waste and misuse of resources of each ministry that CAG points out. This source of waste of budgeted funds should be ended before additional funds are raised and allocated to these ministries.

Industrial Policy (continued)

The final instalment of the New Industrial Policy reviewed in the last issue of the Bulletin was issued on August 7 in relation to the small and

tiny sector. The new policy proposes : a) legislation to ensure payment of SSI bills : b) all to limit new/non active partners liability to the capital invested : c) credit demand of SSIs to be fully met and a cell to be set up to ensure this : d) Permission to other industrial undertakings to invest upto to 24 per cent in the SSI : e) launch of factorising service by SIDBI : f) Tiny sector investment limit raised upto Rs. 5 lakhs : g) relaxation from certain labour laws to the tiny sector : h) national equity fund scheme scope widened : i) composite loans under the single window scheme also to be given by banks : j) tiny sector accorded priority in government purchase programme : k) services sector to be recognised as tiny sector : l) priority to SSIs and tiny sector in allocation of indigenous raw materials : m) promise to deregulate and debureaucratise the small and tiny secter : n) PSL and NSI to help market products through consortio approach both domestically and internationally : o) package for handloom and handicraft sector : p) janata cloth scheme to be replaced by new scheme which will provide funds for loom modernisation : q) compulsory quality control for products that pose threat to health and life : r) identification of cluster of units by SIDBI for modernisation s) a separate modernisation and technology upgradation programme soon : t) greater role for NHDC, SIDO, KVICs : u) thrust to be shifted to producing consumer preference goods from merely depending on rebates and subsidies : and v) a comprehensive programme for training and R&D. With this completion of new industrial policy, this part relating to SSIs and the tiny sector is timely because this sector produces one third of manufactures, 40 per cent of exports and is the main means of generating employment and cutting back unemployment. But it has its pluses and minuses. Its most important strength is that it recognises that this small and tiny sector needs timely credit and not only cheap credit and the legislation and ther actions like the single window which has been enlarged to cover project costs upto Rs. 20 lakhs and working capital upto Rs. 10 lakhs should be welcomed. Further the assurance that the sector will receive continuing attention and priority in the governments purchasing programme are also needed. The problem with the policy is that till good and needed concepts like the single window, debureaucratisation (at present 52 inspectors call on SSIs), the new marketing, the technology upgradation scheme and the specific provisions for handloom and handicrafts are spelt out, and it is difficult to judge the new policy. The major query is with regard to the permission for other industrial enterprises to invest upto 24 per cent in the equity of an SSI, including allowing foreign equity participation in SSI. Both exist at present but now there is formal decision in favour of India and foreign equity participation upto 24 per cent of the equity of SSIs. This will provide the capital resources needed by the sector and the infusion of the latest technology to upgrade technology and cost reduction. The query relates to this provision encouraging indirect ownership of small units by large enterprises. This exist today with large firms forcing out production both to cut costs and get round the reservation policy. Now this is legitimate. Even with regard to ancillary development which has pluses in the greater use of labour intensive techniques and the broadening of the entrepreneurship base, here the ancillary units which operate

as part of the larger industrial mother unit enjoy all the benefits meant for SSI. Hence the question on this part of the policy is that ¡it looks like a help to large units and not SSIs.

Industry

CSO reports a slump in industrial growth in April 1991 at 0.9 per cent while manufacturing recorded a negative growth of -1.2 per cent for the month. Electricity showed a growth of 7.1 per cent and mining 6.7 per cent. The quick index for the month was 199 against 197.2 in April 1990. The annual report for 1990-91 of the Ministry of Industrial Development states that in 1990-91 (upto December 1990) the industrial growth was 8.9 per cent, with manufactures at 10.4 per cent, electricity 7.1 per cent and mining 1.7 per cent. The good munufacturing performance is attributed to favourable investment climate, continued improvement in the small scale sector and employment of 50.3 lakh persons in khadi and village industries. The good performers were electrical machinery, chemicals and chemical products, leather and fur products, paper and paper products and basic metals, while the poor performers were beverages, tobacco products, jute, wood and wood products. The number of SSI units increased by 6.7 per cent to 418,26 lakhs and employment from 113 lakhs to 119.60 lakh persons. Production of SSI was worth Rs. 1,32,320 crores compared to Rs. 1,06,400 crores in 1988-89. Exports form SSIs increased from Rs. 5489 crores in 1988-89 to Rs. 7625 crores in 1989-90. The government launched Exim scrips on August 7 all over the country, but was not able to accept the request of exporters to lower the interest rates for preshipment credit. Polyester manufacturers state that they will not benefit from the extension of MODVAT announced in the budget, manufacturers of monofilament yarn report a crisis following the rise in the excise duty coupled with the devaluation of the rupee and the hike in international prices of hidensity polythene. These need looking into.

Public Sector enterprises

The report of the Department of Public Sector Enterprises reports that the public sector units performed badly in 1990-91 with the sharp decline in their profits by 37.28 per cent from Rs. 3748 crores in 1989-90 to Rs. 2780 27 crores in 1990-91. This was because of the lower profits in the petroleum, coal and lignite, fertilisers and heavy engineering sector. Among 189 units, 105 earned a net profit cut at a lower level by Rs. 671.38 crores, 84 recorded a net loss of Rs. 2188.33 crores. The net profit as a percentage of capital declined from 4.62 per cent in 1989-90 to 2.66 per cent in 1990-91. The remedy for this is to close or sell off the perpetually loss making units and for the budget to take over and finance the non commercial activities that units are obliged to undertake.

National Production Front

Steel

The Annual report for 1990-91 of steel structures a positive note of a 4 per cent increase in its production of saleable steel (7.36 million tonnes) by its 5 integrated steel plants, completion of the suspension programmes of Bhilai

and Bokaro steel plants, and achievment of the iron ore export target of 32 million tonnes valued at Rs. 1057 crores. Crude steel production was 8.76 million tonnes, energy consumption per unit of production was reduced by 3 per cent compared to 1989-90. The modernisation work at Durgapur steel plant is reported to be in full swing and at Rourkela on schedule. Visha-kapatnam steel plant had its larger blast furnace commissioned, followed by the other sections. The increased capacity of sponge iron to 14 lakhs per annum and the delicensing of pig iron, promoted in the secondary sector are reported. The problem with these official annual reports is that they do not refer to setbacks suffered and the reasons for the low level of production compared to other countries.

Crude

The crude front presents a gloomy look in the first half of August. The report of the Ministry of Petroleum for 1990-91 reports that crude production for the year at 33.03 million tonnes was 3.1 per cent lower than the previous year (34.1 million tonnes) and even lower against the target of 35.9 million tonnes. It attributes this to the Assam agitation, the problems of Kayali refinery of Gujarat, and the large number of sick wells in the western region, referred to in the previous issues of the Bulletin. Production of petroleum products at 48.56 million tonnes was 0.3 per cent less against the previous year's increase by 6.5 per cent. Production of natural gas was higher by 5.8 per cent compared to the previous year's increase by 28.5 per cent but most of it is wastefully flared. The result of all this is that country's crude import bill will go up by Rs. 18,000 to Rs. 22,000 crores during the VIII Plan 1992-1997 The original import bill of 38,000 crores has been increased to Rs. 56,000 crores based on import of 150 million tonnes, domestic production of an annual 30 million tonnes and international crude price of $25 a barrel. As this kind of money is not available, the moral is very clear. There will have to be drastic measures to cut crude consumption and imports and increase domestic production. The only positive point in this gloomy scenario is that ONGC has struck oil in Ratnagiri, gas discovered at 2 structures in Krishna Godavari basin, and OIL struck near Bikaner when it estimates a crude oil reserve of 180 million tonnes. The government also announced in Parliament a time bound plan for using the country's 686 billion cubic metres of gas reserves in the transport, industrial and domestic sectors. Natural gas can substitute for one fourth of the total demand for oil in the country, and replace diesel and petrol in the transport sector, Kerosene and LPG in the domestic sector, diesel oil and fuel oil in power sector and naptha in the fertiliser industry. These are excellent plans which should be put into effect quickly, along with economy measures, as the only way of meeting the crude oil import bill.

Agricultural production

In the first fortnight of August, the main issue on the agricultural front was the behaviour of the monsoon in the northern belt of Punjab, Haryana, West UP and Rajasthan, MP, Gujarat and J & K. The monsoon this year is technically within the range of normalcy as the data from the meteorological division states as on July 31 out of 35 meterological subdivisions, 21 have received normal or excess rainfall, which means

54 per cent of the districts have adequate rains, the anxiety has been with the regard to the states listed above, when the monsoon was yet to be firm to establish itself upto August 10. In Gujarat the patchy monsoon in Saurashtra will affect oil seeds, particularly groundnut. This outlook was worrying, because any shortfall in the kharif crops and harvest will feed the inflationary potential of the country. The budget and the economic reform policy is based on keeping inflation under control. Hence it is a matter of relief that on August 10 most parts of Punjab, Haryana, HP report heavy rains, inundating the low lying areas, increasing the water level of Pong and Bakner dams. Now it is to be hoped that the monsoon will continue in this region to ensure the kharif cultivation. Having achieved stability in foodgrains production (around 176 million tonnes) the government is concentrating on increasing the land under HYV. This concentration location specific area under HYV which will close the small gap between the target of 68.11 million hectares for the actual of 67 million hectares in 1990-91, the area in 1991-92 is to be increased with use of location specific HYV from the 29.2 million hectares for rice, 22.09 million hectares for wheat last year. In addition there is a thrust on horticulture. On the irrigation front where Rs. 17,932 crores were expended in its VIII Plan, the most shocking situation is the chronic delay in completion of irrigation projects, 23 projects started in the IV Plan are still to be completed, for multi purpose and major irrigation projects including 1 in Haryana, 1 in WB and 2 in Karnataka started in the I Plan are yet to be completed. At present there are 168 major and 288 medium irrigation projects spilling over from the VII Plan. The reason for this shocking waste of resources is bad planning of the projects where there is a competition among states to get into the race at any cost - when the project report is far from ready. In the VIII Plan, no new irrigation projects should be funded for the first 3 or 4 years and all attention should be on completing these 436 projects spilling over from the past.

Foreign Trade

The export front presents a discouraging picture in the first half of August. The Annual report of the Ministry of Commerce for 1990-91, reports a slow down in export given for that year, and that exports had lost their buoyancy shown since 1986 to 1989-90. Export growth which had risen from 14.3 per cent in 1986-87 to 25.9 per cent in 1987-88, to 29.1 per cent in 1988-89, and to 36.5 per cent in 1989-90 dropped to 17.5 per cent in 1990-91 at Rs. 32,527,28 crores. India's imports during 1990-91 rose by 21.9 per cent at Rs. 437,82 crores and so the trade deficit rose from Rs. 7730.44 crores in 1989-90 to Rs. 10,643.54 crores in 1990-91, as noted earlier. Equally depressing is the government's report to Parliament that the provisional export figures for the first 3 months, April to June 1991-92, show a negative growth of -6.5 per cent in dollar terms against the expected 9 per cent. The only item which have done well on exports are agricultural commodities, textiles, marine products, ores, minerals and basic chemicals. The commerce minister attributes this decline in export growth during the first quarter to the "savage curbs" on imports of export related items. But as long the BOP position is bad, on July 26 our total foreign currency assets were only $1237 million - the government cannot be too liberal on imports and in the liberalisation to the maximum to boost exports. The trade deficit for April and May 1991, the first 2 months of 1991-92 has fallen by 78 per cent from Rs. 1114.28 crores in

April and May 1990 to Rs. 204.16 crores in dollar terms from $643.28 million to $118.96 million. This decline is a reflection of the sharp fall in imports brought on by the compression measures of the government and RBI. The Ministry reports that export during the 2 months rose from last year's Rs. 5107.62 crores to Rs. 5606.04 crores, which was a 9.8 per cent increase mainly due to the devaluation, as the dollar equivalent shows a decline of 5.8 per cent at $277.7 million. The ministry announced in August that applications for REP licenses will be processed and licenses issued without waiting for the settlement of CCS claims. This will help clear the enormous backlog since CCS claim have not been settled. At the foreign country level, the rouble-rupee trade is in some confusion because of the changes in the soviet economy. The Soviet authorities are asking for Rs. 91,000 crores equipment ordered by the Indian power and steel sector to be settled in dollars or in direct rupee payments by the importers which they can exchange for dollars in the international markets where the dollar is being exchanged for Rs. 30/-. In turn the Indian authorities are finding it difficult to arrange for import of capital goods and spares for different power and steel projects as agreed by Soviet Union. The Indian government has been preparing for some time to face this kind of structural change in Indo-Soviet trade and the time for it has now arrived. The other issue is the decision of the Swedish government not to renew the multifibre agreement as from 1 August 1991. This is important because other industrial countries want a roll over period of 17 months without observing the 3 Bali declaration conditions - of no fresh curbs, abolishing group limits on garments and no regional quotas during this period. The effect of these decision will be a surge in Indian garment exports to Sweden (as the Norwegian experience shows) though the Sweden market is not a big one. On individual items, the RBI announced on August 10 relaxation of the cash margin against leather input imports under OGL, provided the concerned exporter has had export bills outstanding. Export of experts in software is increasing to the US, UK, Germany and Australia, where the demand for computer experts is heavy. Whether this brain-drain is good for India needs to be examined but the paucity of funds for promotion of this export as well as the bureaucratic hurdles are acting as a break. The sharp increase in SSI export from Rs. 390 crores in 1973-74 to Rs. 7626 crores in 1989-90 was earlier referred to. This, the government informed Parliament is 20 per cent of all exports compared to 22 per cent in 1983-84 and 1984-85. The textile export target for 1991-92 is Rs. 12,100 crores against Rs. 50,000 crores in 2000 AD. The government reports that its foreign exchange reserves have increased from Rs. 2926.23 crores on July 26 to Rs. 3120.40 crores on August 2 as a result of the loans against gold, short term credit from IMF and a net inflow of foreign exchange reserves.

Aid and loans

In the first fornight of August, the World Bank made 2 loans to India-one was $150 million to meet the cost of additional imports due to production shortfall in the Bombay High following from closing down sick wells—with an exceedingly high oil gas ratio, as it recommended: the other was a loan of $158.6 million ($31.6 million from IDA and $124 million from the World Bank for controlling/monitoring and abatement of industrial pollution through installation of effluent treatment plants. World

Bank has offered a soft loan of $150 million for the AIDS control programme.

International

World Economy

UN's World Economic Survey—1991 warns that world economic growth is likely to fall to zero this year (1991), as a result of numerous uncertainties, including political instability with Middle East and elsewhere, the speed and direction of the transition in Eastern Europe and the Soviet Union, the course of interest rates and the outcome of the Uruguay round of trade negotiations, which is referred to later and whose failure will lead to a dangerous surge of protectionism and a loss of confidence in the multilateral system. While stating that world output may stagnate around 2 per cent in 1991 and the volume of world trade will grow at less than 4 per cent—the lowest rate since 1985. As growth in world demand accelerates in 1992, world trade is likely to grow by 5 per cent. In 1990, world economic growth slowed for the second year and even fell behind world population growth. In the developing countries, the growth rate slowed for the third year in a row to around 3 per cent. In Latin America and the Caribbean output actually fell. The Gulf war affected a dozen developing countries and Iraq and Kuwait. The world output is expected to rebound to a modest 2 per cent next year, which will only halt the decline in world output per capita in 1990 and 1991. In all major countries growth in output in 1990 increased more slowly or declined absolutely. The slowdown was most pronounced in Canada, UK, US. But Germany and Japan grew faster than 1989. The Growth of industrialised market economy slowed in 1990 by 1 percentage point to 2.4 per cent. By the end of 1990 all major economies were in for near recession. But their paths differed, giving a degree of stability to the world economy. While US slowed sharply in the second half of 1990, Germany and Japan grew vigorously. Eastern Europe and USSR saw the worst drop in economic activity since the second world war. The Soviet Union faced a 4 per cent fall in output and Eastern Europe a 11 per cent contraction. In the developing world growth slowed down for the third year in a row to 3 per cent, compared to 3.4 per cent in 1989 and 5 per cent in 1988. Oil importing countries faced a major terms of trade decline of 6 per cent. In Latin America led by Argentina and Brazil, GDP per capita slowed to 0.7 per cent for the third year. In Africa, the growth rate barely improved, at an estimated 3.4 per cent, which is its population growth rate. In West Asia, except for Iran, Kuwait and Jordan which experienced a catastrophic impact of the Gulf crisis, the other countries increased their oil output and so achieved a high GDP growth. In South and East Asia, the pace of growth remained high in 1990 above 6 per cent, mainly due to the performance of Korea and Malaysia. The region was negatively affected by the Gulf crisis but even so was world's fastest growing region. The world's merchandise trade grew by 4 per cent, a significant slow down from 1989's 6.8 per cent and 1998's 8.4 per cent. The report calls on industrialised countries to adopt policies to stimulate economic growth. They now seek to reduce fiscal pressure and the public sector and rely on monetary restraint to contain inflationary domestic demand: but interest rates and unemployment have been high, weakening investment and growth. In various industrialised countries, spending has been cut, detracting from demand

rather than stimulating, expressing their political priority according to whom unemployment is an acceptable price for containing inflation and high real interest rates are welcomed even at the cost of growth. Hence the view is that output growth beyond 2 or 3 per cent a year will be inflationary. As long as this view prevailed, the industrialised countries cannot serve their historic role as an engine of world economic growth. A more dynamic international economic environment is needed for a shorter adjustment in the developing countries for a less costly transition in Eastern Europe and the Soviet Union, as the survey concludes.

GATT

The impasse over the issue of farm subsidies is still holding up the Uruguay Round of trade liberalisation talks. The group of seven, referred to in the last issue, stated that "no issue has more far reaching implications for future prospects of the world economy than the successful conclusion of the Uruguay Round". The farm subsidy deadlock has also affected progress on 14 other trade issues. India wants these negotiations to be concluded speedily by the end of the year or March 1992 and wants the rules regarding safeguards, customs, countervailing duties and anti-dumping laws to be developed and amplified so as to strengthen multilateral trade talks. The EC's decision to impose anti-dumping duties on exports of cotton yarn and polyester yarn is unjustified and contravenes the bilateral agreement between EC and India since 1988. The linking agreement on TRIPS and trade in services to GATT through the concept of a single undertaking or mechanism of common dispute settlement machinery goes against the economic policies of the developing countries which are intended to respond to the challenges of their stage of development. In the area of market access there is an urgent need for equity particularly in respect of textiles, labour, services and agriculture in which the industrialised countries have maintained a highly restrictive and discriminating regime. As for the multi-fibre arrangement, as noted earlier, the exporting and importing countries have agreed to extend it for 17 months until the end of 1992, because of MFA terms expired on July 31, 1991, and the Uruguay round is yet to be completed. Though it has been agreed to phase out MFA and make it a part of GATT, the modalities of the phasing out are still to be worked out.

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II. Agricultural Development in Tamil Nadu

Paddy and other crops

With plentiful rains in all districts of the state and the filling up of Mettur and its surplusing (for the first time since 1980), the farmers, all over the state and particularly in the Thanjavur district and its delta which is now receiving copious water from Mettur, are hard at work ploughing, planting and broadcasting seeds for the short term kuruvai crop. The farmers are aiming at bringing 4 lakh hectares under kuruvai (as of mid August they have brought 1.25 lakh

acres under kuruvai) and have asked for the short variety seeds and the needed fertilisers to back up their efforts. The government stated that it has rushed 150 tonnes of samba seeds to Thanjavur. All the reservoirs in the state are full and so the farmers agree with the target for the year of 70 lakhs tonnes of rice for the current year. This is part of the long term plan of the agricultural authorities to increase the rice production target from 90 lakh to 100 lakh tonnes. Farmers who are growing rainfed crops—coarse grains, pulses etc—are at work taking advantage of the good rains. All the crops this year are likely to yield bumper crops - paddy, cumbu, cholam, varagu, ragi, sugarcane, groundnut, and pulses.

Research results

Of the 27 research reports recorded till mid August, 4 groups of reports are of particular interest as they are of immediate use and application by the farmer. The first group relates to paddy: the Vijianagaram reports a simple and cost effective technique of making up for the deficiency of calcium, proteins, vitamins and minerals in paddy straw through cement rings and airtight storage: similarly UAS, Dharwad states that the ripe pods of the raisin, also used for growing fodder yeast is rich in sugar and protein and can be used as fodder for cattle, the soil and water management research centre, Thanjavur advises farmers that the best variety of paddy to withstand inundation is Ponmani, inundating the plant upto 75 per cent of its height in the flowering stage : and the Krishi Vigyan Kendra, Pondicherry sets forth as a guide to paddy farmers, who are facing a serious pest the white back plant hopper, 5 steps starting with early sowing of sornavari to avoiding sublethal doses of insecticides to control the pest. A second group of reports on beans and pulses also yield results which can be applied to the field immediately : the J farm, Madras has developed a high yielding bush type *avarai* for both cultivation by the farmer in the field and by the housewife for the kitchen garden : the national pulses research centre, Pudukottai reports that the TNAU developed seeds drill drawn by a tractor results in high yield with the facility to change the distance between seeds and adjusting the row to row spacing: the soil salinity research centre of TNAU at Tiruchi advise the pulses farmer that application of NPV at 250 and 125 larvel equivalents per hectare can ward off gram pod borers and avoid all toxic hazards: the oil seeds research station, Tindivanam advises the mustard cum pulses cum oil seeds growing farmer that short duration variety of mustard PJ 303, B-85 can be grown followed by groundnut and gingelly can fetch Rs. 3775/hectare - about Rs. 500 more : ITC reports that its hybrid sunflower seeds AH3425 yields 26 per cent more oil and urges farmers to use it. A third group of reports relates to the fruit farmer : the agricultural college and research station, Killikulam, advises the mushroom growing farmers on the control measures using formal dehyde spraying to eliminate pests and diseases in mushrooms : the Vridhachalam regional research centre advises gingelly farmers the 7 steps needed to be taken from ploughing the field twice before sowing of pre sowing soil treatment with Pharats IOG at 10 kg/ha to keep the white grub and worm grub pests at bay : JDA, Kerala advises coconut growing farmers that apart from use of nitrogen, phosphorous and potash, the application of calcium is essential to increase the

productivity of coconut palms : TNAU's soil salinity research centre also advises that the rhinoceros beetles attacking coconut can be checked by the green muscardine fungus which kills the grub ; the sugarcane research centre, Cuddalore advises sugarcane farmers that cane yield can be multiplied by paddling the field as in rice cultivation and using phosphorous in the form of super phosphate or DAP before the last ploughing : TNAU's horticultural research station in Udhagamandalam feels the Nilgiris farmers using glass houses for growing fruits and vegetables are seriously threatened by the whitefly for which it advises 8 control measures starting with using resistant variations and ending with using an entomogenous fungus and the lady beetle as regulators. A fourth group of reports of interest to cattle growing farmers include : the Lam farm, Guntur refers to the sarcoptic mange in pigs which it says can be countered by applying acaricide preparations and keeping sheds clean : VCRI, Namakkal advises cattle farmers that diarrhoea in calves can be treated by withholding milk for 12-24 hours and giving the calf oral electrolytes thrice a day.

Tea

Tea production in January-July 1991-92 is estimated at 263.3 million kg, with the North India at 171.45 million kg and the South India estates producing 92.86 million kg. The major class of tea produced is CTC at 192.08 million kg followed by orthodox tea at 69.64 million kg. The problem facing the industry and the country is that tea production records an annual average of 4 million kg, while tea consumption has been growing by 18 to 20 million kg. The problem therefore is to choose between increased domestic consumption or increased exports of this valuable foreign exchange earner. In this connection reaching the target of 1000 million kg of tea production by 2000 AD is urgent and special efforts to replanting in old gardens and opening up non traditional areas must be intensified to cover the gap of 250 to 300 million kg in the next 5 years.

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III. Industrial Development in Tamil Nadu

The review of industrialisation in Tamil Nadu in the first 10 days of August covers a rather small number of items. On the positive side, *first* the state government is setting up an *Industrial Guidance Bureau* to serve as a focal point for dessimination of information and escort service to entrepreneurs as part of its plan of all out assistance to entrepreneurs. New entrepreneurs will benefit from this Business service which will closely resemble the concept of the single window scheme for which there have been long standing demands by enterprises. Information will be given to entrepreneurs on the scope of industries in the state, guidance will be available on the procedural aspects of starting industries for the incentives and facilities available. The Bureau will search, encourage and identify prospective entrepreneurs and investors and

motivate them to set up industries. *Second*, a new *100 per cent export oriented spinning unit* with an outlay of Rs. 7.5 crores is being established in Udumalpet, like the electronic city at Perungalathur (See Vol XXI p132). The unit is being put up by the Madras Spinners Ltd, will have 6C00 spindles producing hosiery yarn which commands a good global market. *Third*, Spartek Granites Limited (SGL) which is a 100 per cent export oriented unit is being merged with Spartek Ceramics India Ltd (SCIL) as a corporate strategy to exploit the synergies offered by the two companies in the manufacture and marketing of a complex range of products. The merger will enable quick capacity expansion, higher debt equity ratio, higher depreciation facilities, enhanced borrowing limit and entry of the export market in a big way with one brand name, spartek. *Fourth*, the states *sugar-mills* will be gaining from the union government's decision to increase the levy quota by 5 per cent and the levy price by 10 per cent. This helps in dispensing off the surplus sugar with the mills of some 3000 tonnes. But there is still a surplus of 23000 tonnes of free sugar which has to be sold in Kerala and WB. *Fifth*, *EID Parry* seems poised for speeding growth with improving productivity in the sugar, fertiliser and ceramic divisions.

On the *negative side, first*, the state is faced with *growing losses from its public sector undertaking*, the two leading sources being bus transport and the State Electricity Board. On the electricity side, the legislative action being undertaken by the union government to introduce the private sector including foreign equity should be awaited. On the *bus transport*, it is clear that the government should first impose a moratorium on further nationalisation of bus transport and second should begin the process of denationalisation of the bus services. Of the 20,000 buses in the state, the 15 state transport corporation operate 14,000—at a huge growing loss. It is to be hoped that the budget to be presented in September will indicate the beginning of the process of bringing the most serious loss making transport corporation back to the private sector to start with. *Second*, *Tuticorin Alkali Chemicals and Fertilisers Ltd (TAC)* which was brought under the fold of SPIC as reported in Vol XXI (p238) has become potentially sick and will have to report to BIFR, as 50 per cent of its net worth of Rs. 12.94 crores is eroded by accumulated losses. Its turnover, gross profits for the year ending March 31, 1991 are poor, with only slight marginal improvement. Now BIFR must decide whether it can be rehabilitated and if so the details of the rehabilitated package. Both BIFR and the stock exchange have decided, was as provided, under clause 40B of the listing agreement. SPIC must make an open offer to the minority share holders at Rs. 20.35 per share which was the price paid by SPIC when it took over from SIDCO.

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IV. Education, Science and Health

Educational reforms

As stated in Vol (XXI p243), the decision of the Central Advisory Board of Education (CABE) requesting the chairman to set up a committee to review the recommendation of the Ramamurthy committee has been expanded by the new government in setting up a 16 member committee of CABE chaired by the chief minister of Andhra Pradesh to review the implementation of the various parameters of the New Education Policy (NEP) taking into consideration the report of the committee for review of NPE and other relevant developments since the policy was formulated. The committee is to give its report within two months with recommendations on modifications to be made in NEP.

Professional education

The serious lack of basic infrastructure in the ITIs particularly 15 in and around Vellore came out this month, when 2 students belonging to these private ITIs were caught following a threat to the staff in case of strict invigilation. The 300 private ITIs lack equipment, teaching staff and concentrate on trades like fitters, motor mechanics and electricians as the infrastructure for these are not costly or sophisticated. The 18000 students turned out by these private ITIs are not only poorly trained, their examination is perfunctory as the states' ITIs are not equipped to handle such a large number of examiners. Hence malpractices creep in as in the case in Vellore. The state government should recommend disapplication from the union government's Employment and Training Department of all these ITI which are not really technical institutes but are money spinners.

Science

The first random wave generator has been acquired at IIT, Guindy. This is to be attached to the wave basin which has been functioning there since March 1991. On the research side, in cooperation with ICICI, developmental projects under the Programme for Acceleration of Commercial Energy Research in collaboration with BHEL, Trichy and the city's private sector are under way. Also in cooperation with CEI a centre for excellence in manufacturing technology is being set up.

Health

In collaboration with WHO, the AIDS cell at Madras Medical College, which has received a grant from WHO of $286,000 has taken up a programme of "sentinal surveillance of patients, in various out patient departments as part of the Rs. 7.25 crore help for health education and training, laboratory control and programme management during 1991-92. The education and health training programme will cover 4 groups-policy makers, general public, high risk groups and medical personnel. The programme is run by a high level medical scientist group. All microbiology laboratories of all government hospitals are being upgraded under the programme. So far in one year 14 full blown AIDS cases have been identified in General hospital, with over 200 serious positive cases. Testing facilities are available only at Madras, CMC Vellore and Madurai. Workshops on training medical personnal for detection of AIDS are underway and should cover all the metropolitan areas of the state.

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V. Employment and Labour Relations

The government informed Parliament that its employment goal is to create I crore new jobs every year. The details of the employment strategy and the programme to achieve this goal are to be incorporated in the VII Plan. The report of the National Commission on Rural Labour was presented to the Prime Minister by its chairman Dr C.H. Hanumantha Rao. It recommends 2 major goals for rural labour. First to improve the levels of living and for this to establish a minimum basic wage of Rs. 20 at December 1990 prices, and recommends an automatic increase in wages every 6 months on the basis of the rise in the consumer price index. The second goal is to prepare them for effective participation in development. To achieve these goals, the strategy recommended includes improving the land base for rural labour, equity in agricultural growth and employment gurantee programme. The other components of the strategy are infrastructure for rural industries, human resource development, social security, empowerment of rural labour and effective governmental presence. Among economic measures to improve the lot of rural labour are self employment schemes like IRDP should be continued by linking them to area development plans to be formulated by elected institutions. Highly labour displacing mechanisation in agriculture like the use of combine harvesters should be banned. There is need for a positive policy to assist and provide relief to migrant labour, and the availability of areas for consumption at lower rates of interest to rural labour families. Institutional credit through cooperative banks must be made more easily accessible to rural labour households. A national authority for bonded labour should be set up and legislation should be enacted for the protection of home based women workers and their welfare. Land tribunals should be set up at local levels for speedy despatch of land reform cases. Comprehensive union legislation should be enacted for agricultural labourers for their protection and welfare. A Shram Shakti Commission should be set up for a national fund for exclusive credit to poor women without any security upto a certain limit. Free and compulsory education for all children upto the age of 14 should be ensured immediately through the formal school system.

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VI. Other Items

NLM Councils

The Council of the National Literacy Mission chaired by the minister of Human Resources Development met in early August. Attended by Ministers of Education, MPs and educational experts, the council reviewed the work of NLM in promoting the literacy programme of voluntary agencies, BGVS and the 100 per cent literacy programme for about 50 districts and expressed satisfaction with this accelerating programme. It expressed regret at the decision of the Kerala government to discontinue the follow up of the 100 per cent literacy

Programme and requested the government to allow the programme which was a model and an inspiration to all other states and districts to continue. However Minister Arjun Singh informed Parliament on August 12 (6 days after CABE met and protested it) that the Kerala government was of the view that there was no need to continue the present literacy programme, as the state had reached 100 per cent literacy. The Kerala sakshratha had submitted a proposal for a post literacy and continuing education programme, which the government has not approved. These and phase of the literacy programme for neo literate, the literacy programme for the tribals and fishermen will be continued.

Seminar on Societal Panorama

There was a seminar on the societal crisis and the way out. Addressed by the stimulating thinker, M.M. Thomas, there was agreement that the crisis covers all aspects of society-political, economic, social and cultural and calls for simultaneous action on all fronts. The seminar devoted half a day to the future of this programme.

Seminar on the Union Budget 1991-92

There was a seminar jointly organised by MIDS and Madras University School of Economics on the Union Budget 1991-92. The seminar began with an overview of the budget examining its supposedly novel features, with the general conclusion that it was little innovative and that it was on the whole regressive ; the second session was devoted to the tax proposals with a detailed analysis to its impact, the possibility of its being evaded in relation to the various concessions given in the personal and corporation income tax, wealth tax and the facilities given to attract black money ; the third session was given to the effect of the budget on the balance of payment problem and it was shown that it would not improve the deficit but might make it worse : the fourth session was devoted to the fiscal deficit and its macro economic implications, with a detailed analysis of the 4 types of deficit in the budget and reforms in monetary policy. The last session was given to the problem faced by the economy and how far the budget meets them. A summary of the discussion appears as the second article'

Centre for Development Studies

The Annual meeting of the governing council of the Centre for Development Studies met in mid August. It reviewed the ongoing research programme and commended the staff for its concentration and dealing with Kerala problems. It reviewed the finance of the centre and noted that the population studies centre is making a sizable contribution to its finances. It elected a new council for the next 3 years. It recommended that the ICSSR give greater attention to the linking of the research work of the various Institutions.

September Development Seminar

The paper for the September seminar on "Global trends and Indian Industry" by P. Srinivasan along with a summary of the discussion of the paper at the seminar appears as the first article.

Second Article

As noted earlier, the synthesis of the seminar on the union budget appears as the second article.

Book Review

A review by Padmini Swaminathan of the book, "Regional Cooperation in Industry and Energy" appears in the book review Section.

M I D S News

Mr. S. Guhan chaired a seminar on World Development Report 1991 held at Institute For Financial Management Research, Madras on 11th September, 1991.

He also attended a meeting convened by Governor, Reserve Bank of India with economists on Government's new economic policies at Bombay on 28th September.

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Dr. S. Neelakantan addressed the Post Graduate students of the Anthropology and Sociology Department on "Property Rights and Social Change in India — A Historical Perspective" at Department of Anthropology, University of Madras on 19th September.

He also delivered a lecture on "The Future of Socialism" at the International Women's Association, Madras on 10th October.

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Dr. S Janakarajan attended a workshop on Aspects of ground water irrigation in the Eastern U.P." organised by IIM and Ford Foundation at Ahmedabad on 30th September.

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Dr. Nasir Tyabji attended the Seminar on Business Opportunities in the Domestic and Export Markets under the New Industrial policies of the Central and State (Tamil Nadu) Government" in Madras on 28th September. He spoke on "Future Thrust Areas in Industrial Development of Small Scale Industries in Tamilnadu during the coming Decade" at the Seminar, organised by the Tamil nadu Department of Industries and Commerce, the Small Industries Service Institute and the Madras District Small Scale Industries Association.

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Dr. Padmini Swaminathan addressed Reserve Bank Officers at the Officer's Training College, Madras on "Industrial Growth in India" with special reference to the New Policy Statement on Industry, on 3rd October.

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Ms. Jennifer E. Duyne (Ethnologisches Seminar, University of Zurich, Switzerland), Affiliate of our Institute presented a seminar on Rural Industrialisation in Bangladesh— The Role of Infrastructure" on 26th September.

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Mr. Lal Jayawardena, Director, World Institute of Development Economics Research of the United Nations University visited the Institute on 3rd October.

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Global Trends and Indian Industry

P. Srinivasan
General Manager, Corporate Management Services

This Paper seeks to broadly and briefly discuss some of the trends in the global scene which have a bearing on industry and its performance and progress. These trends are taking place both at macro and micro levels and their impact is felt by both developed and developing countries. Their implications to a country like India which is in a transitional stage cannot be over emphasised.

The Paper is divided into three sections. The first section focuses on macro level trends. The second section deals with changes in manufacturing, marketing, technology and other management practices which directly influence the performance of industrial enterprises. The final section raises certain issues relating to Indian industry and its future in the context of the present state and the performance over the last four decades.

Section I

Government's role

The major trend which has emerged in recent times is in regard to the role of the State in managing economic activities. The consequences of this trend are reflected in the redefinition of the role of the Government and the re-thinking and review of the ownership of the means of production, greater faith in market forces and pluralist democracy. This review, then, leads to a reconsideration of the need for centralised planning process, which, in turn, has implications to social priorities and resource allocation. At the same time, it is recognised, the State has a definite role in certain spheres. As the World Development Report 1991[1] puts it: "it is not a question of State or market: each has a large and irreplacable role."

Power shifts

Apart from the swift disintegration of the once monolithic Soviet Block,[2] there is the break-up of what Alvin Toffler[3] calls the so-called South because of the inability to form a timely united front vis-a-vis the industralised world. One group comprising the desperately poor countries is still mostly dependant on peasant labour. Another group includes important countries like Brazil, India and China which are emerging as industrial powers, but which are saddled with vast

populations and scrabbling for subsistence from pre-industrial agriculture. The third group consists of nations like Singapore, Taiwan and South Korea which have virtually completed industrialisation and are quickly moving into high technology. "If power is splintering in East Block, so, too has power in the so-called South."[4]

The third immense power shift,[5] to use Toffler's expression, has been the emergence of Japan and Europe as rivals to United States "lending to hyper competition as each fights to dominate the 21st century. The so-called West, too, is, now splitting apart."

Paul Kennedy[6] highlights the rise of the Pacific region which not only includes the economic powerhouse of Japan but the swiftly changing giant, the Peoples Republic of China, NICs, Australia and New Zealand, ASEAN countries, USA and Canada. The importance of this region (excluding North America) is seen in its economic transformation in terms of achievements in GDP, industry and trade and rapid shifting of world economic gravity towards Asia-Pacific as the Pacific begins to emerge as a key centre of world economic power.

Toffler points out that the power shifts taking place in the world today are of epochal nature and are closely linked to the decline of industrialism and the rise of the new knowledge-driven economy. There is a definite change in the role of knowledge in that it signals the rise of the new system of wealth creation. Knowledge is not only the source of the highest quality power but also the most important ingredient of force and wealth. Knowledge has also become the ultimate substitute as less capital is needed to do the same thing that required more capital in the past. The information revolution seems to be reducing the need for capital per unit of output.

Dynamics of World Economy

Peter Drucker[7] in a seminal article asserts that the world economy has undergone a change in its foundation and structure and, in all probability, the change is irreversible. Three fundamental changes have occured in the very fabric of the world economy. First, the primary product economy has been "uncoupled" from the industrial economy. Second, in the industrial economy itself, production has been de-linked from employment. Third, capital movements, rather than trade (in both goods and services) have become the driving force of the world economy.

Despite the drop in commodity prices during the Seventies and the Eighties, agricultural output rise almost one-third between 1972 and 1985 to reach an all time high. Food supply had grown faster and had matched demand and had steadily outrun the population growth.

For all non-farm commodities, (various products, minerals or metals) world demand is shrinking The amount of raw material needed for a given unit of economy output has been dropping for the entire century except during the war time.

In this context, the Japanese experience is noteworthy. "In 1984, for every unit of industrial production, Japan consumed only 60% of the raw materials required for the same volume of industrial production in 1973, eleven years earlier.[8]" The reason is that industry is steadily switching away from heavily material-intensive products and proces-

ses as it moves into high technology. The raw material in a semi-conductor micro-chip accounts for 1% - 3% of total production cost, but, in automobiles and pots and pans, their shares are 40% and 60% respectively. This scaling down of raw material consumption goes on in regard to both old and new products. Fifty to hundred pounds of fibre glass cable transmits as many telephone messages as one ton of copper wire does. This decline in raw material intensity in manufacturing process is extending to energy consumption.

This phenomenon of making more with less and less has implications in terms of trade for primary products in both developed and developing countries. These have further implications to the process of development itself in developing countries.

The second major change in the world economy highlighted by Drucker is higher manufacturing production both in developed and developing countries. This means decline in blue-collar emyloyment. Data and experiences confirm this phenomenon. Most of the growth in employment in advanced countries like US and Japan is in non-manufacturing sectors. It is possible, that, in future, labour force in manufacturing may further shrink, and, consequently, the proportion of labour force may not be more than the proportion of employment in farming. Even in developing countries, knowledge or skill embodied workers are growing and they may outnumber the blue-collared workers in the coming years.

The third major change, according to Drucker, that "has occured in the world economy is the emergence of the symbol economy - capital movements, exchange rates and credit flows - as the flywheel of the world economy in the place of real economy - the flow of goods and services. The two economies seem to be operating increasingly independently. This is both the most visible and the least understood of the changes."

World trade in goods today is much larger than it has ever been before. This is also the case in Invisibles i.e. the trade in services. This accounts for more than three trillions a year. But this amount is over-shadowed when we look at the transactions of the London-Euro Dollar Market where the turnover of each day is over $300 billions and, in a year, more than 75 trillions - more than twenty-five times that of world trade. Further, the foreign exchange transactions in the world's money centres account for over $ 150 billions a day or over $ 35 trillions a year - over twelve times world trade in goods and services.

Whatever the causes for this expansion of trans-national money flows, they have wrought a fundamental change in that the real economy of goods and services and the symbol economy, money, credit, capital are no longer bound tightly to each other and that they are moving further and further apart.

This change has serious implications to developing countries in terms of decline in prices for their products while the developed countries because of the preponderance in exports of industrial goods may derive an advantage in terms of favourable trade Another implication of this change is, that, instead of competitive advantage factors of the real economy - competitive labour cost and labour productivity, raw material cost, etc - increasingly, it will be exchange rate which will decide labour cost in a country. Any enterprise operating in the global economy has to recognise that it

is in two businesses at the same time : it is both a maker of goods (or a supplier of services) and a "financial" business. It cannot disregard either.

Trade Blocks

There is another trend that is emerging on the world scene. Peter Drucker[9] mentions that economic relations have to be between trading blocs rather than between countries. The establishment of a European market by 1992 and the free trade agreements in North America (between US and Canada and between US and Mexico) are two manifestations of this trend. There is a possibility of a third trading bloc in the Asia-Pacific region centred on Japan.[10] If Japan and East Asian economies, find more of their goods shut out of Europe and America, Asia-Pacific trade bloc may emerge by default.

Triad - Inter-linked economy

There is yet another phenomenon i.e. the inter-linked economy[11] (ILE) of the triad of US, Europe and Japan. These are joined by aggressive economies such as Taiwan, Hongkong and Singapore. The emergence of triad challenges economic policies based on conventional macro-economic data comparing one nation against another. If the Government tightens money supply, loans will flow in from abroad and render the monetary policy meaningless. If the Central Bank tries to increase the interest rate, cheaper funds come in from other countries i.e. ILE. Thus, ILE has created problems for Central Banks-interest rate and money supply.

ILE has a resident body of 1 billion people enjoying and average of more than $10,000 per capita GNP. It is with ILE that most of the wealth is created, consumed and re-distributed. The ILE factor in gathering strength as seen from the co-ordination of the macro-economic policies and co-operation among G-7 countries on all matters (including political). This development has far-reaching implications to both advanced and developing countries It is, therefore, important for a country like India aspiring to become an industrial power to develop a healthy two way relationship with ILE.

Section II

The trends at the Industry level are indeed revolutionary in scale and scope. Some of them are highlighted here they are considered relevant and important to Indian Industry.

Globalisation of Markets

Technology is driving the world towards a certain homogenisation of markets. This is mainly because of easy access to communication, transport and travel. The result is very quick diffusion of market[12] information around the world. Thus we have, today, a commercial phenomenon known as globalisation of markets for globally standardised products This, then, compels companies who aspire to partake in these market- to gear themselves in terms of enormous economies of scale in production, distribution, marketing and management. As they achieve levels of performance which enable them to penetrate into world markets, they edge out competitors who still operate within their narrow local/national markets.

With instant communication and ready information, consumers in all parts of the world want products which have the same functionality, quality, reliability, service levels and price competitiveness. It is no longer possible to sell to developing countries products which are lesser versions or which are no longer in developed countries. And, similarly, it is not possible to make more money abroad than at home. This does not mean that regional or local preferences can be ignored in the case of products which require adjustments.

As Kenichi Ohmae[13] argues, "the trend towards the single global market is unstoppable-and companies that fail to grasp the opportunities in time will inevitably loose out."

With the reality of globalisation of markets, MNCs are becoming TNCs. The word "overseas" is no longer meaningful.

Management experts like Kenichi Ohmae point out, that, companies, who wish to globalise, have to move more deeply into the countries when they seek to neutralise the impact of currencies as well as the possibilities of protectionism. Besides, in order to serve their customers well, they have to be closer to them in key markets. Only truly global companies can achieve "global localisation" i.e. be as much of an insider as a local company but still accomplish the benefits of world-scale operations·

Strategic Alliances

As life becomes increasingly complex day by day, companies have begun to learn that it is no longer advantageous to go it alone. The consequence is the growing national and cross-border alliances among big companies. It is argued, "globalisation mandates alliances' makes them absolutely necessary to' strategy".[14]

There are agreements between firms that go beyond normal market transactions but fall short of mergers. More and more alliances are taking place to serve whole regions or the whole world. Alliances extend beyond markets to cover multiple activities. All the US auto companies, for example, have alliances with Japanese companies to produce cars for sale in US.

Some of the benefits are : economies of scale and learning by joining forces in marketing ; component production or assembling of particular models ; access to local markets or required technologies or government formalities for local ownership. There are certain costs as well to these companies who seek such alliances in strategic and organisational terms.[15]

That alliance is perceived as advantageous is clear from the fact that even Big Blue, IBM, which was once considered a world giant with unsurpassed technological and marketing muscle, has been establishing alliances with companies in USA, Europe and in Japan.

The major consequence of this development is the restructuring of certain industries at a global level-for example, automobiles and computers. This is the trend which has implications to developing countries like India as there may be more such alliances and restructuring of industries in triad countries.

Manufacturing - New Concepts

Another trend of tremendous significance is the emerging importance of manufacturing in corporate strategy.

With the success of Japanese companies because of the manufacturing excellence, considerable attention is devoted to the production process. The MIT commission on Industrial productivity[16] points out that "US industrial performance has suffered not only from a failure to coordinate the design effectively but also from a lack of attention to the manufacturing process itself. Process design and production operations have been neglected by management and held in low esteem by the technical community. This is in sharp contrast to industrial practice in Japan and other countries, where production has far higher stature and attracts some of the most qualified and competent technical and managerial professionals."

There is a distinction in this development between US and Japan. In US and Europe, chemical industry is science-based, whereas, in Japan, discrete parts manufacturing has been developed as a science. Unlike in chemical industry, in engineering and electronics industries, high flexibility, high volume and high variety are required and they have been mastered by Japan.

The MIT commission further points out that the weakness in the process and production expertise which is apparent in many of the American industries is one of the factors which has led to the replacement of American manufacturers by Japanese in the market place for a number of products including consumer electronic items. One specific instance quoted by the MIT Study is the machine tools sector which is characterised by widespread neglect of production technology. People have been comfortable with proven technologies and have not demanded the best from machine tool builders, whereas in other advanced countries including Germany, machine tool users have exhibited a much greater degree of technical sophistication.

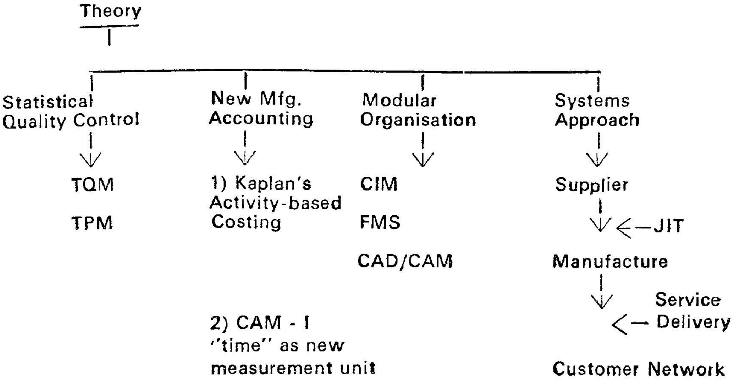
This neglect is also seen in exploiting the potential for continuous improvement in quality and reliability of products and processes. The cumulative effect of successive incremental improvements and modifications to established products and processes can be very large and may outpace efforts to achieve technological breakthroughs.

There is today a worldwide upheaval[17] in the way the management processes are conducted. Earlier, repetitive automation worked side by side with human craftmanship; the new wave of manufacturing process technology combines the ideas of flexibility, adaptability and modularity to produce better products in new ways. It looks as if eventually it will envelop all sectors of manufacturing : to start with in durable goods, electronics, transportation, and aerospace industries where its presence is already strong: subsequently, in building, clothing, mining, and other industries as limited only by our imagination and courage to take risks.

The far-reaching developments in manufacturing technology pushes us to the threshhold of the Factory of the Future which differs from the factory of the past essentially by the capabilities broughtforth by modern digital computers The early stages of this metamorphosis dates back to the early 1960s were characterised by NC machining, CNC machining, Robotics, Group Technology and Flexible Manufacturing System (FMS). These tools provide us islands of automation usually separated by gulfs of inefficiencies. All these

modern tools, however, were a prologue to the Factory of the Future whose essence is the integration of different machines so that they work harmoniously in the overall process of manufacturing. With the power of VLSI micro-computers literally at our finger tips, real-time process control and reprogramability of the tools of manufacturing enable us to explore new possibilities of product variety, life cycle and customerisation that were earlier found to be impossible.

The emerging theory of manufacturing has been succintly analysed by Peter Drucker.[18] The following exhibit captures the essential elements of the new manufacturing theory.



Note :
- TQM ... Total Quality Management
- TPM ... Total Productivity Management
- CIM ... Computer Integrated Manufacturing
- FMS ... Flexible Management Systems
- CAD ... Computer Aided Design
- CAM ... Computer Aided Manufacturing
- JIT ... Just in Time

CIM is mainly concerned with information processes at all levels of the factory and its management.

FMS provides the essential computer controlled manufacturing tools and systems for CIM to execute the computer generated plans and schedules that takes account of a total system rather than just one cell or shop.

CIM integrates "FMS islands" within the computer network, the business system.

The transformation in the attitude of managements towards manufacturing is seen in the desire to attain what is popularly called World Class Manufacturing (WCM)[19] The term clearly captures the breadth and the essence of the fundamental changes taking place in large modern enterprises. All the elements of production process are affected: management of quality, job classifications, labour relations, training, staff, support, sourcing, supplier and customer relations, product design, plant organisation, scheduling, inventory management, transport, handing, equipment selection, equipment maintenance, product line, accounting system, role of the computer automation and others. WCM seeks continual improvement in quality, cost, lead time and customer service and it is considered possible, realistic and necessary. "WCM demands simplification and direct action : do it, judge it, measure it, diagnose it, fix it, manage it on the factory floor. Do not wait to find out about it, by reading a report later."

New manufacturing organisation

While noting these fundamental changes in manufacturing, it is important to distinguish between having the technology and using it. This distinction sums up the competitive edge of Japanese over US manufacturers as the US companies compared to their Japanese counterparts use the new equipment (FMS) in remarkably inflexible and ineffective ways[20]. Ramachandran Jaikumar through his pain-staking research, over a period of years, points out, that, the difference between US and Japanese performance is due not to the equipment but to how things are managed. Developments in software in automated manufacturing has made management of all companys' intellectual assets—knowledge and skills of its workers—an essential ingredient for success. "The arena of competition is shifting from manufacturing to engineering, from process-maintenance to process improvement" This new technology cannot be practised with an obsclete organisation.[21] There is, therefore, need for a new manufacturing organisation which helps to manage not only physical assets but also intellectual assets. Only a new organisation can capture the knowledge and develop the skills that will enable a company to compete with process technology.

Information Technology

Another momentous development is the Information Technology (IT). Today, it is no longer considered a business resource; it is considered as the business environment. The term Information Technology describes the products and services created by rapid changes in computing and communication technologies and the two fusing together. Information Technology is more than just computers. It broadly encompasses the information that businesses create and can use and a wide spectrum of increasingly convergent and linked technologies that processes the information.[22]

The strategic significance of this new Information Techology is recognised all over the world as it is transforming the nature of all products, processes, companies, industries and even competition itself. The benefit of this technology has been highlighted earlier while dealing with manufacturing. Nevertheless it may be useful to note the three major uses which this flexible tool provides to modern corporations : pro-

ductivity, competitive advantage and responsiveness. This most powerful system is as effective as its users as emphasised by the experts.[23]

Rapid Dispersion of Technology

In today's world, products are based on so many different critical technologies that it is not possible for companies to maintain a lead in all of them. The software for IBM's personal computer, such an instant hit, was not an IBM product. It was developed by the Lotus Corporation. Most of the components in the IBM PC are outsourced as well. IBM could not have developed the machine in time and cost it if it had tried to keep it 100% proprietory. IBM's accomplishment with the PC lay in its decision and ability to approach this development effort as a process of managing multiple external vendors. The moral of the story is clear : rapid dispersion of technology.[24] Nothing stays proprietory for long and no one player can master everything. In the contemporary world, operating globally mean, operating with partners, which, in turn means a further spread of technology.

Fixed Costs Management

To successfully compete in global markets, companies have to incur immense fixed costs. It looks as if it is not possible to play the variable cost game any more. Apart from needing partners who can help them amortise fixed costs, they need definite strategies in order to maximise contribution, to fixed costs. With increasing automation, the variable cost of labour is gradually going out of production and manufacturing is becoming a fixed cost activity. The cost of technological breakthroughs and commercialising them on the innovation chain in order to turn them into marketable products has skyrocketed so much that research and development. (R&D) has become a fixed cost too. For eg. in the pharmaceutical industry it takes about $50 milions or even more to come up with an effective new drug; consequently, R&D is not a variable cost game. Even people and brandnames are included in fixes costs Information technology is mostly a fixed cost.

The fundamental change that has occured in the last 10-15 years is the shifting in the manager's focus of boosting opportunities by reducing cost of material, wages, etc , (variable cost environment) to maximising marginal contributions to fixed costs i e. boosting sales (fixed cost environment). This new logic naturally compels managers to amortise their company's assets over a much larger market base and this naturally drives them towards globalisation.

The shift from management of controllable costs to fixed costs management poses tough challenges to managements as they operate on a world-wide basis.

Importance of Design

There is a transformation taking place in global manufacturing capacity. Design is becoming the front end of technolgy; this is already seen in a number of industries like watches, TVs, cars, etc. To maintain the quality of a car, one needs a better design. Design is an engineering support service.

In the design end of the technology, a lot of developments are taking place. For example, it is possible to get the engineering support service from any part of the world for there are no consi-

derations of economies of scale, end so on. Given the outsourcing of discrete parts in automobile industry, industry structure itself is getting networked. There are any number of global networks operating for industries. This, in turn, requires high level of P&D and design competence in order to demonstrate efficiency at the global level. It has to be the world's best and such criterion as big and small becomes a non-issue.

Such support services are becoming increasingly possible because of telecommunication and design tool. Specialists are working on third generation design tool which is system based - for example in the design of the entire gear box (vibration, noise, shiftability, etc). The corresponding development is simultaneous engineering. One person may not be able to do it and so a number of engineers may have to work on different aspects and these can happen in various parts of the world. One way to move fast is to do simultaneously what used to be done sequentially earlier.

In the past, designing was done first and manufacturing methods were worked out later. Today, one is defining and designing the manufacturing process concurrently with designing the end-product.

Discontinuities in Technology

In modern business, two factors need to be carefully and quickly addressed from time to time.

The first is the Law of Limits that determine the technologies, machines and processes which are likely to become obsolete. Management's ability to recognise these limits and gear themselves to developing new technologies becomes crucial for competitive advantage. The second factor is the rapidity with which the technological discontinuities are occuring.

"The scientific knowledge that underpins our products and processes is multiplying by leaps and bounds in fields as diverse as quantum physics, surface chemistry, cell biology, mathematics and structure of knowledge itself. Furthermore, every day we learn more about the process of innovation - how it works and how it can be made to work better."[25]

"These two developments are not new, but never before have they interacted to produce such an explosion of knowledge and change. Before the year 2000, major technological changes may have transformed as much as eighty percent of all manufacturing industry and a large portion of all services industries. We are living in an age when the risk to industry leaders is greater than ever before. Not only will technological discontinuities come with increasing frequency as we move towards 2000, but during these discontinuities, the attackers will have the advantage."[25]

Non inter-changeability of Employees

Creativity and Innovation are possible only if an organisation has the best human resource. Superior performance depends essentially, apart from other factors, on superior human resource management practices. "The right management principles, systems, and procedures play an essential role, but the capabilities that create a competitive advantage come from people - their skill, discipline, motivation, ability to solve problems, and capacity for learn-

ing. Developing their potential is at the heart of high-performance manufacturing. Moreover, it allows a manufacturing organisation to differentiate itself in ways that are extraordinerily difficult for its competitors to copy."[26]

While these aspects are fundamental in modern industrial organisations, there is a perceptible change taking place in the attitude of employees themselves. The emphasis on unity and solidarity of employees through collective efforts (Unions) is losing its relevence in technologically advanced countries and workers are no longer inter-changeable as they once were. As workers get more differentiated, the bargaining position of individuals with crucial skills is enhanced. Individuals, not only organised groups, can expect pressure. The strength of an employee in future is to be found in his cranium - where society has the single most important source of future wealth and power - and not in tool box or in machinery.[27]

Section III

The focus of this Section is not on date or progress of the economy but on the capability of the Indian Industry to successfully integrate itself into the world economy. An attempt is therefore made to raise certain issues in regard to Indian Industry which demands careful consideration in the light of the aforementioned objective.

From the discussion in the foregoing Sections, it is clear, technology[28] is the driving force which dictates the pace and direction of industrial growth. Technology not only changes the structure and organisation but it also changes the dynamics of Industry itself. Efficient technology management then becomes the central task of industrial enterprises.

Technological Dynamism

How is Indian Industry geared to upgrade its technological competence, adapt modern processes and produce products of best quality acceptable globally? The answer to this question can be positive and negative. While Indian Industry has acquired certain technological strength mainly through imports of technologies, they do not have the capability to adapt, improve and make forays into new areas. There are a number of reasons for this state of affairs; but, the Industry itself has to take the blame to a large extent. Because of the comfortable situation under Government's protective policy and also because of temptation to make quick profits in the domestic market. there has been no compulsion for the Industry to take care of this aspect even as the industries in triad countries and NICs have fortified themselves with new technologies.

Government's policies ,themselves have contributed to this market environment[29] where a few ployers flourish without much internal competition and with little or no external competition.

These Government policies have led to certain negative results particularly in terms of shielding of inefficiency in Industry. But the burden for the undistinguished technological performance in terms of output growth, efficiency and exports has perforced to be borne by managements themselves. There has always existed for Indian Industry the soft option of importing technology and foreign tie-ups without any effort to assimilate and develop further the know-how acquired by them.

There has been virtually very little of R&D in Indian Industry. Innovation and creativity have always been sporadic in Indian Industry as their products, despite low quality and high prices, have ready domestic market (due to import restrictions etc.).

What has Government done in this regard especially when we have so much of documentation and policy formulation on science and technology? There are objectives and goals in the policy statements; but, they have neither made any impact on Government organisations, nor have they imparted any creative urge in (public and private) Industry.

Over the years, enormous investments have been made in building scientific and technological infrastructure. There are high level educational institutions devoted to science and technology and it is quite often asserted they compare with the best institutions in the world. To cut the long story short, their benefits to Industry much less to society have been far from commensurate with the costs incurred on them. Neither have they developed a nexus between Industry and the Laboratories/Institutes, nor has there been any mobility between Industry and Scientific/Technological Institutions. Nowhere has this isolation paradox been witnessed with such equanimity.

Scientific and Technological Skills

The assertion that India has the third largest scientific and technological manpower has been rejected by the data published by UNESCO quite some time ago.[30] At the same time, there is no gainsaying the fact that India has a large technical manpower. It is, however, a moot point how much the skills they embody are relevant at a time when technologies are undergoing rapid changes and when there is a need to acquire the state of the art knowledge and skills to sustain technological capability of the Industry.

Entrepreneurial/Managerial Skills

It is quite often taken for granted that the country has developed a large reservoir of entrepreneurial and managerial skills, and, therefore, it is not difficult to build on the existing strength and expend if only resources and technologies are available. To some extent, this optimism may be justified given the initiatives and achievements of both public and private sector industries in certain areas. Unfortunately, their entrepreneurial skills are not reflected when one looks at the capabilities to measure up to world standards of performance. In other words, most of their initiatives have been in traditional lines of production or in areas where they can obtain attractive returns on their investments without much effort and within a short time. It is argued that risk preference of Indian entrepreneurs / professional managers is indeed low and that they lack the confidence, dynamism and the vision of their counterparts in newly industrialising countries, let alone advanced countries like Japan.[31]

Whatever be the reasons, we are laggards in many industries. For example, we have been in the business of steel for more than three decades with a private sector unit operating from the early part of the century. We are still producing around 10 millions from the integrated steel plants, whereas one plant in South Korea produces more than 10 million tonnes. China's crude steel output is more than four times that of India's, and that of South Korea's is

one and a half times more. Japan started with 5 million tonnes of capacity in 1950 and this has grown to 150 million tonnes by 1980. Today, Japan sets standards in world steel industry.

Industrial sickness

The Indian Industrial sickness which has been growing over the years reflects the impact of Government's policies and Industry's inability (mainly due to managerial inadequacies) to face challenges, particularly, market forces through flexibility and imagination. Apart from the number-majority of SSI units this industrial sickness results in locking up scarce capital leading to loss of output, income, employment, demand, and, above all, investible surplus.

In the case of large scale units, managements can be more active than has been the case all along. It is true that regulatory environment is a hindrance but, still, there is sufficient scope for better management if only the will is there. The Japanese industries, when they face similar situations, explore ways and means to utilise the resources either through increasing demand or making other products. This experience may not altogether be applicable to the Indian situation because of the constraints like market and so on. The message must not be lost sight of.

If the situation is allowed to grow, the employment situation may become worse. This will be unfortunate given the fact that the record of manufacturing industry has not been as satisfactory in regard to employment generation. The issue, then, is one of finding, solution acceptable to both labour and management, without in any way compromising the need for using the assets in a more efficient manner. Apart from the employment aspects, which generates purchasing power and demand, there is this issue of enhancement of managerial competence, a strength required for enabling Industry to move into global markets.

Cost/Productivity

The increase in incremental capital output ratio (ICOR) in manufacturing reflects underutilisation of capacity and high cost of production. Labour productivity represents a small improvement in total factor productivity (TFP). Total factor productivity at 1% in 1960s and 1970s has improved in 1980s though this improvement is less than those in other developing countries Our level of TFP has affected Industry's competitiveness in world markets and impeded efforts to improve export performance. Apart from Government's policies, weak managerial conduct,[32] as revealed by low capacity utilisation and slow technological change, should cause concern. The combined effect of Government's policies and manageria ineffectiveness has led to high cost structure of Industry.

The recent improvement noted in the TFP should spur managements to improve further especially when policy constraints are being removed gradually. This is a challenge and an opportunity to Indian Industry.

Industrial Performance

Indian Industry witnessed impressive growth in the 1980s as compared to earlier decadas. This is evident from the expansion in output, in diversification of products and in acquisition of new

technologies. These positive developments provide confidence about the future. However, "the fall in the share of value added in gross output from 23% in 1975 to 19% in 1986 is indicative of the input cost escalation[33] in industrial production adversely affecting price competitiveness of the products. Imported inputs are becoming increasingly expensive in the wake of the decrease in the value of the Indian rupee against key currencies. In general, there has been a fall in the non-wage share of the value added reflecting an increase in wages with no proportionate improvement in productivity.''

Industrial growth has led to structural change in GDP. The share of manufacturing has gone up from 12% in 1950 to 18% in 1989; it was 17% in 1980-81. This means, there is enormous potential which can be tapped through better managerial initiatives. As compared to structural composition of GDP in other developing countries, the contribution of the manufacturing sector to GDP is low.

The Industrial sector, while performing well in some respects, has not been as dynamic as some of the developing countries, particularly, in Asia. In addition, Indian Industry has lost its potential in export markets. As already noted, factors such as high domestic market pull, high cost of production, low productivity, inadequate attention to quality and inefficient market initiatives have impeded the export driveof the Indian Industry.

Small size Markets

The markets for goods and services are small as compared to many developing countries mainly because of low income and low purchasing power. The demand base is still to expand significantly as unemployment and poverty are widespread among large segments of the population Unless there is substantial increase in the growth rate (higher than the present 5%), it may not be easy to generate adequate opportunities for employment. This employment generation need not necessarily be in the manufacturing sector; it could be in primary and tertiary sectors. It is possible that it may be difficult to generate adequate employment oppertunities in the manufacturing sector with the adoption of modern technologies in order to produce products to match global standards.

That the demand base is inadequate is recognised by planners, policy makers and by industry leaders. It has not, however, been considered as a major constraint as others like infrastructure, for example, as somehow, Industry has been able to sell products even at higher prices. The volume consideration has started to enter Industry's calculations only recently with competitive pressures building up as a result of Government's liberalisation measures. With compulsions to export, cost and volume factors may become critical for improving the efficiency of Industry.

There has been estimates of the Indian market ranging from 100 to 200 millions. The performance of Industry does not seem to support this estimate and, in fact, foreign investors estimate the market at a considerably power figure. Whatever be the number, the fact of the matter is that the market sizes for a number of products are far less in India (as compared to our population) than in many of the developing countries. Even as industries are grappling with the small size markets, it has to face a formidable challenge from large scale smuggling of products. Smuggled products today

constitute a substantial proportion of Indian markets and, particularly, in consumer and consumer durable goods and this renders estimation of market size very difficult

For Indian industries to be globally successful, capacity/volume has to increase substantially and this is possible only if the Indian market expands. This crucially depends on substantially higher growth rates in the economy and attaining higher levels of income and purchasing power (not eroded by high rates of inflation).

New Policy Initiatives

Government's Policy initiatives in recent months have vastly improved the policy environment. No longer it is possible to say that Government is standing in the way of Industry's performance. Admittedly, the responsibility is today with the Industry and it has to measure up the challenges posed by the new policy measures.

This policy environment is becoming favourable to Indian Industry. More than this favourable development, adequate infrastructure (both economic and social) are fundamental to Industry's performance. Adequate allocations of resources for infrastructure have to be made and adequate capacity built up for taking care of future requirements. This can only be done by the Government at any rate for the next few years.

Competitive pressures are bound to increase and internal competition should help Indian Industry to try to become efficient in terms of cost, quality and distribution. It is possible that attempts will be made to help industry to reduce the high cost of production. In the meantime, Industry can do a lot in managing the cost economics, especially when there is so much of knowledge available about the methods used by managements in countries like Japan.

Indian Industry, as noted earlier, will have to vastly improve its performance on several fronts including technology and has to demonstrate leadership skills and the ability to manage markets within and outside the country. With the existing strengths, India cannot become a significant participant in the global market, as the industiy is unequal to the task. In India's share in world trade has to increase from 0.5% to, let us say, 2% as it obtained in 1950 it will be a very tough task indeed! Industry will have to understand the implications of the restructuring of industries going on at the global leve and the consequent changes in the dynamics of comparative advantage.

The Industry's future depends on technology availability as it will not be possible to develop indigenous capability in the next few years. It is going to take time. At the same time, efforts have to be initiated in right earnest to build up technological skills and high levels of performance so that, in the next few years, a respectable R&D base is established.

At the present time, access to the latest technologies seems difficult. As pointed out earlier, if we are able to improve the size of the market, scale up the level of managerial performance and technical capability, it may become less difficult to get superior technologies from triad countries. Indian Industry will then be able to bargain from a position of strength.

Harsh Global Environment

The global environment today, as noted already in Sections I and II, does present a grim picture. Given this situation, the question is : whether Indian Industry, which is today an insignificant player in the global market, can make a successful entry and sustain itself?

This problem for Indian Industry, for that matter, Indian economy becomes all the more difficult when we examine the global economic environment. The international agencies are pessimistic about the prospects in the next 2-3 years. Global economic prospects over the next few years look difficult. The pressure points will be the extent, depth and duration of the US recession; the ability of East Europe to maintain the momentum of its reforms; and the stability of the international financial system..............'' The long term growth prospects of both industrial and developing countries will depend on developments in the world trading environment.' Apart from uncertainties in the international trading environment and the cost of the external finance, developing countries have to face uncertainties in regard to availability of the external finance. There are competing demand for the limited availability of funds from countries in Eastern bloc, China, and other developing countries. As in the case of technologies, access to funds may not be that easy.

The problem in India is compounded by the fact that she is facing serious macro-economic imbalances. The resource problems have to be sorted out with external assistance—so far encouraging-but this is going to add to the already heavy burden the country is bearing because of large external debt.

Encouraging Response From Industry

The success of Indian Industry's efforts will, to considerable extent, depend on the performance of the economy in the next 2-3 years. If the problems are sorted out within the time-frame of three years, as envisaged by the Finance Minister, this will faciliate the launching of Indian Industry into global markets. This will, of course, depend on political stability and continuity in policy management (?)

Indian Industry today is much more conscious of its shortcomings than ever before. Many industry leaders are aware of the global trends discussed in earlier sections. They are giving serious thought as to how they should grapple with them. Many managements are looking to markets beyond the borders of this country and are learning new skills to manage costs, improve their human resource systems and honing their managerial and entrepreneurial skills to become active participants in the world markets. A few of them have achieved quality (ISO-2000) matching global standards. Many of them are attempting to improve their quality and performance of their products and are seeking acceptance in sophisticated markets in triad countries. That Indian Industry is coming to terms with the new realities both in Indian and International scene is recognised today. But the task is not easy as they have to overcome many of their shortcomings. They have to improve in many areas in order to stand comparison with some of the best companies in the world. Some of them are already exploiting the opportunities which are provided by the networking of markets. They have however, to improve substantially their design and engineering skills to exploit the opportunities provided by the out-

sourcing of components by major companies in triad countries. Design has always been a weak spot in Indian Industry[34] and this has prevented technological change and export efforts. There is need for swift and decisive action to improve the design capability to world standards if Indian companies are aspiring to be become reliable suppliers to global corporations.

Conclusion

Some issues have been raised in this Section to highlight the weaknesses in Indian Industry and to discuss the urgency for quick corrective action by both Industry and Government. Any delay will mean greater cost to Industry and to Society. Industry cannot afford this, nor can the country any longer. It is therefore, incumbent upon both Government and Industry to work in concert with the sole objective of succeeding in making the country a globally competitive power.

Indian Industry has a tremendous stake in this effort and it cannot afford to miss this opportunity. The global market is a harsh judge and the Indian participants will be tested as per the rules of the game in a ruthless manner. Indian Industry has to respond to this challenge and given a reasonable time-frame, it should be possible to succeed.

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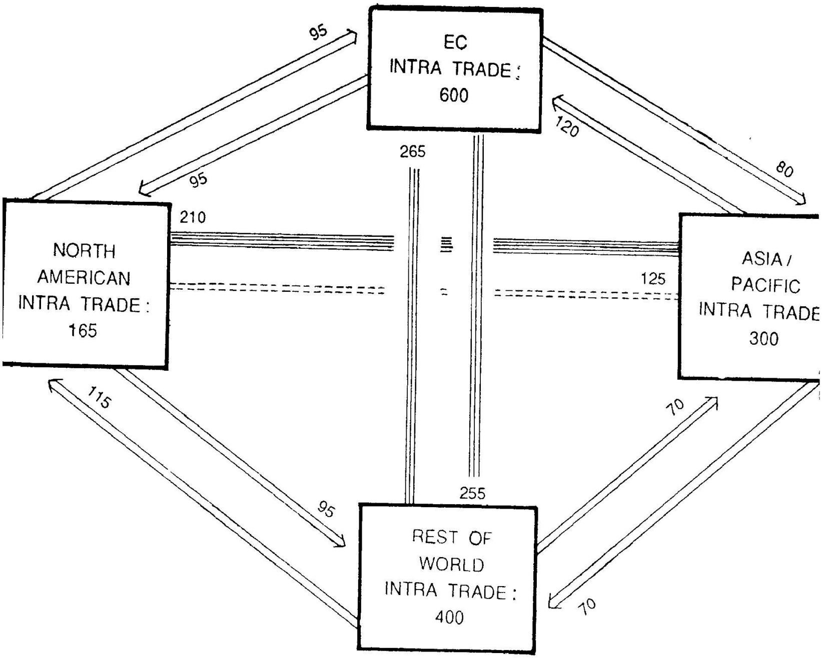
Annexure I

World trade flows, 1989 $bn
(Figures have been rounded to nearest $5bn)



Source: A survey of World Trade, Economist, September 22, 1990

Annexure II

India : Structural Changes in GDP. 1966-83

(% of GDP)

	India	China	Brazil	S. Korea	Developing Countries	World
Agriculture						
1966	47.8	37.5	15.9	34.9	28.6	9.4
1978	38.6	29.8	14.0	20.2	21.4	7.2
1983	35.6	35.3	13.4	13.9	20.8	6·4
Mining						
1966	1.0	4.4	0.8	1.9	4.7	2.5
1978	1.4	5.5	0.7	1.4	6.2	2.5
1983	2.9	6.7	1.2	1.4	7.8	4.6
Manufacturing						
1966	14.3	30.3	27.2	18.6	21.1	27.9
1978	15.9	37.5	27.5	27.8	22.2	25.6
1983	16.7	32.5	27.2	27.4	20.6	23.0
Construction						
1966	5.1	3.2	5.4	3.7	4.5	5.8
1978	5.3	3.7	5.8	7.9	5.9	6.4
1983	5.0	4.6	4.4	8.4	5.7	5.6
Services						
1966	31.7	24.5	50.8	41.0	44.1	54.4
1978	37.7	23.6	52.0	42.7	44.3	57,3
1983	40.0	20.9	53.8	48.9	45.1	60.3

Source : WORLD BANK

Summary of Discussion

The Seminar started with the Chair person's introduction on Global Trends and Indian Industry. He gave a note on changing trends of Indian Industrialisation and said that Indian Industries are facing crisis due to various reasons like population explosion, lack of encouragement to foreign investment, heavy investment in the public sector etc. These crises have contributed to a slow industrial growth. Apart from this, it could also be seen that in the industrial sector the dynamism is not in par with the dynamism taking place in agricultural sector, like that of green revolution for example. Moreover the fiscal measures are so severe that unless they are removed industry cannot grow by itself. Mediocre leadership involving national building activities have led to poor management and backwardness and thus had not been efficient enough to make the liberalised economic policy a reality.

This was followed by the author's presentation. He highlighted the Macro level trends in global economy (Governments role, power shifts, dynamics of world ceonomy, Trade blocs, Triad-Inter linked Economy and the global transformation), and Micro level challenges to the same (Globalisation of markets, Strategic alliances among big companies, importance of manufacturing in corporate strategy, fundamental changes in manufacturing, information technology, rapid dispersion of technology, fixed cost management, importance of design, discontinuities in technology, non-inter-changeability of employees etc.). Here he emphasised that research and development is vital in all industries, for it captures the gaps due to discontinuities in technology and also helps the industries to cope with the global development Other developing countries are not sympathetic for the industrial backwardness hence the linkages between industries and research institutes should be strengthened and not neglected. Finally he analysed the capacity of the Indian industry to intergrate itself with the world economy. He brought out the stand of Indian Industries in terms of technological dynamism, scientific and technological skills, enterpreneurial/managerial skill, industrial sickness, cost/productivity, industrial performance, innovative capacity, small size markets, new policy initiatives, harsher globa, environment, encouraging response from industry etc. He brought out the weakness in Indian industry and discussed the immediate need for corrective action plan. He concluded by saying that technology not only changes the structure and organisation but it also changes the dynamics of industry itself. Efficient technology management becomes the central task of the industrial enterprise. Hence we should not blink/run away from the global industrial scene but identify the gaps and bridge quickly to cope with industrial development.

The discussion started with Mr. Gopalan's remarks. He opined that Industrialisation is at a fast pace in America because they trade with intelligence accumulated from other countries ; it is so in Russia because Russians monopolise all the intellectural properties ; and in Japan it is due to their patriotism. He made a comparison of the industrialisation of Japan and India : Japanese did not conduct much research (this, the author refuted) but they were aware of/well informed about the latest invention in other countries, which they suitably implemented in their industries. They concentrated on few fields and utilised the intellectual property of others and succeeded in it. In Japan, certain factors like individual and group incentive schemes, and the self correcting society itself are instrumental in increasing the production. Whereas the Indian industrial development depends on import of technologies, that soon become outdated. Ignorance of the Indians mainly due to poor information technology hinders quick development of industries. Though the Indians invent tehnologies, it is often practiced abroad rather at home. He also said that while Indians work not for themselves but often for others, Japanese work for their own self and also with a spirit to increase production : Japanese are driving their own taxi and Indians are driving someone else's taxi."

The author, in response said that while the Japanese encourage competition for their products within and across boundaries, Indians, by repeated imports are wasting the scarce resources, and the problem becomes acute since access to funds is also not very easy. He made an interesting observation that in countries like Brazil, China, Thailand and Mexico, 50 percent of their investments are directly done by foreigners, and hence these countries have prospered a lot. He pointed out that economists and policy makers may take time to analyse the existing situation and plan for development. However, UNIDO and other International organisation will give warning signals and global development will not wait.

The chairperson also mentioned that Japanese producers are very flexible; they design their product according to the demand. They try to get knowledge through their intellectuals and update their production technology, and their reaction to demand is phenomenal. For them marketing is as important as technology.

Dr. Padmini Swaminathan quoted a study on Research and development Published in Economic Times, where a comparision of the Industrial development of Korea and India is made. The paper, she said, has criticised the basic research that has takan place in our laboratories saying that there is no linkage between our industries and labs. The paper is also said to have criticised the Indian business community and the Government policies also, in the context of the slow industrial development.

Mr. Karunakaran said that sharply focused studies of industries are essential. Research should be done at micro levels for which autononous circles should be formed. Only then we can integrate with the world.

The discussion came to an end with the author's remark that Japanese do not sponsor research in universities but in labs.

MILLIE NIHILA

Report on the Seminar: The Union Budget and Economy*

A seminar on the Union Budget and Economy, sponsored by IEA Trust for Research and Development, Madras Institute of Development Studies and Madras University School of Economics was held at the MIDS on August 10, 1991. Apart from the over-view presented by Mr. S. Guhan of MIDS, there were the following four sessions, each devoted to a specific aspect of the economy and the budget :

Session I : "New Tax proposals and their Impact" ;
Discussion initiation :
Mr. K. R. Ramamani
Tax expert.

Session II : "External Economic Transactions and Budget"
Discussion initiation :
Dr. S. V. Bokil, IFMR.

Session III : "Fiscal Deficit and Macro-economic Implications" ;
Discussion initiation :
Dr. U. Sankar
Madras University

Session IV : "General impact of the Budget" ;
Discussion inititation :
Dr. C. T. Kurien, MIDS.

A summary of the discussions in these sessions is given below :

It was generally agreed that the macro-economic adjustment sought to be achieved in the budget should be viewed within the larger socio-economic context ; and this for a number of reasons : *First* of all, a budget, even-though it is an instrument largely for short and medium term adjustment, does have far reaching, and long term consequences for the simple reason that the state plays a major role in any economy and the budget does set and define a large part of this role. *Secondly*, such a role of a budget becomes particularly important in a context where the economy is in crisis, and the Indian economy today, by any reckoning, appears to be in a deep crisis. Thirdly, in a context where the planning process has been given a go-by, the budget takes on the role of setting and defining broader, long-term policy issues and goals for the economy, and this appears to have happened in the Indian context today.

Given this broad perspective the discussions in the seminar can be broadly divided into two broad groups :

* Synthesis of the Seminar persentation on the Union Budget and Economy sponsored by IEA Trust for Research and Development, MIDS, Madras University School of Economics and held at MIDS, Aug. 10, 1991.

1. Issues relating to the macro-economic adjustments sought to be achieved by the budget : and

2. Broader economic issues within which the short-run adjustment process has to be viewed.

Section I: Macro - Economic Adjustments

It was noted that the 1991-92 budget is essentially an *adjustment budget,* attempting fiscal adjustment and macro-economic stabilisation during the current financial year to be followed by a continued consolidation of these processes during the next couple of years or so.

In more concrete terms the budget has set itself the specific purpose of reducing various types of deficits, like the fiscal deficit, the revenue deficit, the balance of payments deficit etc. It was also noted that according to the Finance Minister, expenditure adjustment constitutes the core—or the central instrumentality—of these corrections during the current year. And this adjustment, the government claims, would be made without affecting the growth impulses adversely, and without touching the poor.

Given this, the questions that have to be raised seem fairly obvious:

1. What the budget has sought to achieve in terms of macro-economic adjustments, is it possible, credible and sustainable?

2. Is the adjustment process consistent with growth, stable price regime, social justice etc?

In order to answer these questions—the first question in particular—a framework for analysis, in terms of a set of identities, was presented in the seminar:

The *revenue deficit* is the gap between total revenue (plan and non-plan) expenditure and total revenue receipts, i.e.,

$$RD = RE - RR \qquad (1)$$

The *budgetary deficit* is the difference between total receipts (revenue and capital) and total expenditure (revenue and capital accounts under both plan and non-plan heads); i.e.,

BD = RD + net capital disbursments (NCD)— Borrowings (B) (2)

The fiscal deficit is government's total expenditure on revenue and capital outlays (net) minus revenue receipts, or

$$FD = RE + NCD - RR \qquad (3)$$

(Note that in all the three equations above the deficits have a +ve sign)

From the equations above, one can write :

$$FD = RD + NCD = BD + B$$

Now, one of the ways of reducing fiscal deficit is to reduce borrowing, B. This is a preferred option since government borrowing crowds out private investment, results in dependance on external borrowings and most importantly increases the future interest and repayment obligations of the government. But from equation (2) it is clear that a decline in borrowing B leads to an increase in budget deficit BD, unless either the revenue dificit, or the net capital disbursments—or both—are held in check. So, a macro-economic adjustment process sought

to be achieved through a reduced reliance on borrowings has to face a trade-off between (a) a reduction in revenue deficit either by increasing revenue receipts and/or reducing revenue expenditure and (b) a reduction in net capital disbursments. As how this trade-off is sought to be resolved in the budget, would have very serious implications for the economy.

Given this broad framework, the budget may be evaluated by looking at various items on the receipt and the expenditure sides. *Table 1* provides some data on these items—in relation to GDP—for 1990-91 (revised estimates) and 1991-92 (budget estimates). A large part of the discussions in the seminar centred around each of the items given in the table-whether the decrease or increase envisaged in each is possible or credible, and what would be the implications of each such change, etc.

Table 1 : Fiscal Adjustments in 1991-92 Budget

	Item	1990-91 (RE) (as per cent of GDP)	1991-92 (BE) (as per cent of GDP)
1	Revenue receipts	11.1	11.6
2	Revenue expenditure	14.5	14.0
	(a) Non-Plan revenue expenditure	11.8	11.0
	(b) Plan revenue expenditure	2.7	3.0
3	Revenue defict	3.4	2.4
4	Net capital disbursments	5.0	4.1
5	Borrowings	6.3	5.1
6	Budget deficit (3+4—5)	2.1	1.4
7	Fiscal deficit (5+6)	8.4	6.5

On the revenue side, the estimated revenue receipts for 1991-92 are higher than the revised estimate for 1990-91 by 17.7% ; and there is a marginal improvement—of a 0.5 per cent point increase — in revenue receipts as a percent of GDP. This is partly due to an increase in tax revenue, which is stated to increase by 18 5 per cent over the revised estimate for 1990-91.

It was generally felt that eventhough there are some attempts at increasing direct taxes—a five per cent point increase in corporation income tax rates, a 3% tax on interest earned by banks, financial institutions and companies, a reduction in the depreciation rates etc—the budget could have, should have, done much more in this sphere, by say, widening the direct tax base, by taxing

agricultural income taxes etc. As for the indirect taxes, it was noted that a sharp increase in customs revenue—of the order of 26% - is largely due to the devaluation of the rupee, and hence, being a one-shot affair, is not sustainable. The increase in excise duties on luxury items like VCRs, VCPs refrigerators etc., it was felt was not adequate.

All in all, it was pointed out that tax revenues as a per cent of GDP has remained constant, at 8.6% both in revised estimate of 1990-91 and the budget estimate of 1991-92. It was felt that in this context where tax revenues are not elastic the budget should have addressed itself to a number of important issues like : (a) attempts to tackle the problem of black money in a more fundamental fashion—by attacking it at the sources where it gets generated—rather than dealing with it in half-hearted, admittedly ineffective schemes providing amnesty to tax—dodgers ; (b) attempts to reduce tax evasion by plugging loopholes, with—drawing various tax concessions etc; and (c) attempts to simplify and streamline the plethora of tax laws.

On the non-tax revenue, it was pointed out that the performance of public sector undertakings in terms of internal resource generation continues to be dismal : This is considered to be the major reason why non-tax revenues as a percent of GDP have remained stagnant at 2.5%. The need to improve efficiency in public sector undertakings was acknowledged by one and all. It was also pointed out that the sale of shares upto 20% of equity of profit-making public sector undertakings, which is stated to bring in Rs. 2500 crores will be in the nature of a capital receipt and should be appropriately netted out of budget support for equity investment in PSEs. The soundness of this move, even in strict financial terms, was questioned. The consequence of such a sale, it was pointed out,will be that money which was earlier going to the exchequer—and because it was going to the exchequer was available for public purpose—will no longer reach there. Instead these incomes will accrue to a narrow section of affluent savers.

Coming to revenue expenditure, as a per cent of GDP it is in fact stated to decrease from 13.8% (RE) in 1990-91 to 12.6% (BE) in 1991-92. In absolute terms the increase is stated to be only of the order of 8.6%. Serious doubts were raised in the seminar as to whether it is possible at all to peg revenue expenditure to levels envisaged in the budget, and this for the following reasons: *First*, of all, two major heads—interest payments and subsidies—which account for roughly 70% of our non-plan expenditure appear to be inelastic at least in the short run. While interest payments by nature are such, reductions in subsidies often involve political considerations, and hence, are not always politically feasible. The experience with regard to fertiliser subsidy testifies to this. The decline in export subsidy again a consequence of devaluation, and hence is not sustainable over the years. *Secondly* while the defence expenditure has been contained—as a per cent of GDP it is in fact stated to decline from 3.4 to 2.7, and the absolute increase in percentage terms over the previous year is stated to be only 3.8—serious doubts can be raised on this in an inflationary context, where nearly 30% of this budget is for salaries and another 30% for stores (provision of food, petrol, clothing, medicine, vehicles, spare parts etc.) *Thirdly*, other non-plan revenue expen-

ditures—consisting of items like police, pension, grants to states etc.—are in fact stated to decline, even in absolute terms, by 3.4%. This, it was felt, was totally unrealistic, given the inflationary context, the law and order situation etc. It was noted that the expenditure on this head had in fact increased by 15% in 1990-91 over 1989-90. *Fourthly* it was also noted that plan revenue expenditure is to register an increase. While the purpose for which this expenditure incurred — like poverty allevation programmes, say—cannot be questioned, it was felt that what is needed here is a dispassionate analysis of the efficacy of expenditure for these purposes.

In sum it was felt that the budget has been totally unrealistic in terms of the claims made regarding containing revenue expenditure. And given the inelastic nature of revenue receipts, this would naturally raise serious doubts regarding government's ability to contain revenue deficits.

In a context where borrowings are stated to decline–by about 7.8% in absolute terms—the inability to contain revenue deficits will mean, as noted earlier, a decline in net capital disbursments, if fiscal deficits are to be contained. And this, it was noted would be a real possibility. As budgeted, net capital disbursments–including net capital investment in public sector undertakings—are stated to increase by about 10% In a situation where a double-digit inflation is very likely, this would mean that in real terms there would hardly be any increase in net capital disbursments : This, it was felt, would very seriously affect the performance of the infrastructural sectors like power, transportation etc., and would have serious consequences in terms of overall industrial stagnation, import substitution, export promotion etc. it was also feared that if the calculations regarding receipts and expenditures go awry during the course of the year — as they are very likely to happen given the inflationary situation — either the deficits will be much higher than what the budget has estimated, or there will be further cuts in net capital disbursments — or more likely both, a potent situation for the development of stagflationary conditions.

Turning to the balance of payments situation, it was felt that the strategy pursued is unlikely to ensure even balance of payment adjustments, and even if such adjustments are achieved it would have serious, deleterious consequences.

Given the enormous external debt — of the order of 180,000 crores — built up over the years, the repayment burdens would be enormous, and cannot be adjusted in the short run. Moreover, there is a perceptible, declining trend in net invisibles : and since the NRIs look for essentially a stable price situation — and since what obtains in the country today is an inflationary situation—there is no reason to assume that the situation with respect to invisibles will improve in the near future. Given such a context, even if our export earnings improveconsiderably in response to rupee devaluation, the country it appears will have to live with a stiff inflationary contraction, if we have to adjust balance of payments. Now if the first claims on our import bill would be bulk imports (like edible oil etc), and imports required for exports, the axe, in such a situation, would necessarily fall on imports of capital and intermediate goods which would once again have serious recessionary consequences.

As for the effect of devaluation on our balance of payments position it was noted that the success of this move would depend on some crucial conditions—like an elastic demand for imports within the country, and an elastic external demand for our *export items* : a relatively stable price regime where our inflation rate would not be higher than the rates outside etc—which are unlikely to obtain. Furthermore, it was noted that devaluation, along with the 40% premium enjoyed by the REP licences (or Eximscrip) can have very deleterious consequences : while the imports in general be much more costly because of these factors, sectors that follow a cost—plus pricing formula—luxury goods with low price elasticity fall in this sector—can pass on the burden of consumers, but it can have recessionary consequences for the rest. This, it was felt, would lead to a pattern of economically and socially inefficient import *substitution.*

Thus in terms of the major macro-economic adjustments, the general feeling in the seminar was that either the adjustments attempted were not possible, credible or sustainable; or, the consequences of such adjustments in terms of inflation, recession etc. are deleterious—or, perhaps both. As already noted, while discussing these adjustments a number of broader socio-economic issues were also raised in the seminar, What follows is a brief summary of discussions on these issues.

Section II : Broader Economic Issues

There was a good deal of discussion in the seminar on broader economic issues relating to traditional liberalisation and opening up of the economy, deregulation and privatisation of the economy, aspects of employment and human resource development policies, inflationary situation in the economy, poverty alleviation programmes etc.

Regarding trade liberalisation and opening up of the economy, the assumption that such a move will lead to greater competition was questioned; Competition and markets, it was pointed out, are very closely linked with economic power, and in a context of unequal economic power, represented by transnationals, there is no possibility of world trade becoming genuinely competitive. There will also be an attempt within the country for the bigger units to conglomerate, partly in order to withstand the pressure of unequal competition that comes from outside and partly to take advantage of it. The proposed policy measures for restructuring the economy — like downgrading of the MRTP—would just strengthen these tendencies.

It was also pointed out that liberalisation in the sense of debureaucratisation, and a change in control mechanisms may be a welcome move, there has been a tendency to equate liberalisation with a shift from prudence to lack of prudence, or a move towards profligacy, with serious consequences for the economy: These consequences—in terms of stagflationary tendencies in the economy, the possibility of a deepening balance of payments crisis etc.—have already been touched upon earlier in this report.

Elaborating the point that the alternative to a system of poor, bureaucratic system of control is not a system of non control leading to profligacy, but one of

proper controls, it was pointed out that the success of late industrialisers like Japan or South Korea was not based on indiscriminate investment by private investors pursuing market signals, but industrialisation guided by a highly interventionist state that influenced important decisions on technology upgradation, marketing strategy, labour relations etc.

It was pointed out in the seminar that one of the issues that has not been given enough attention—whether by policy makers or by academic circles—is the impact of the whole gamut of policies —liberalisation, restructuring, privatisation etc.--on labour; the level of unemployment that is likely to increase, the living standards for the workers, and the socio-political consequences these can generate. It was pointed out that the decade of eighties, with its record of high growth performances in industry and agriculture, was also a period of near—stagnation in employment levels, and this was particularly true in the private sector. In this context, it was pointed out, one has to worry about the consequences of policies which would give us, more of the same.

It was also pointed out that the increased emphasis placed on human resources development in the budget this year is a welcome move, the emphasis within this has been on education as usual. The need to view human resources development comprehensively—education being only a component of it—was pointed out.

In sum, the seminar emphasised the fact that the present budget—and a number of economic policy initiatives announced just before it—do have serious, and often disquieting, implications for a number of important socio-economic issues relating to the very nature and role of the state, the living conditions for the deprived sections, the potential for stagflationary conditions in the economy, and the macro-economic adjustments attempted in the budget should be seen in the context of these larger issues.

Book Review

The Politics of Regional Cooperation Regional Cooperation in Industry and Energy : Prospects for South Asia

Arif A. Waqif (Ed.)

Sage Publications, New Delhi 1991, p. 264, Rs. 235/- .

The papers contained in the above volume were presented at a Regional Seminar on Identification of Specific Areas of Regional Cooperation in Industrial and Energy Sectors in South Asia among the SAARC countries organised at the Administrative Staff College of India, Hyderabad, in August 1986. The two major questions addressed by the contributors are :

(a) in which specific areas, and why, would regional economic cooperation be mutually beneficial and feasible ?

(b) what are the constraints and issues which need to be resolved to facilitate such cooperation ?

We do not propose to discuss the papers/sections seriatim, (since there is quite a bit of repetition). We intend however to highlight some of the issues thrown up by these papers and concentrate specially on the constraints that may prove hard to overcome in the effort to cooperate in the economic field. By way of introduction, the SAARC Declaration signed by the seven South Asian Countries in New Delhi in August 1983, included among others the following objectives :

— to accelerate economic growth, social progress and sectoral development among the member countries of South Asia :

—to strengthen cooperation among themselves in international fora on matters of common interest ; and

—to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.

As pointed out in Sanjeev Gupta's paper, the SAARC group of countries are characterized by heavy demographic pressure with accompanying problems of unemployment and poverty. In all

countries a large proportion of the total population derives livelihood from agrarian activities. In terms of per capita income and gross national product all countries rank low and belong to the low income countries listed in the World Bank tables with a per capita of less than $400. Agriculture continues to play a vital role in the respective economies while the share of industry continues to be relatively low (p126-127).

While the above characteristics (and given the proximity of the countries to each other) should theoretically, give, immense scope for regional economic cooperation, the same is not discernible in practice due to a number of factors—politics dominating the scene. A spirit of optimism runs right through the papers. The papers, in general, list out a number of areas in the field of industry and energy that could enhance cooperation and mutually benefit the region. This, inspite of the fact that (as S.S. Mehta points out in his paper), of all the various forms of cooperation, industrial cooperation has proved most controversial and achieved the least success in the case of a number of regional groupings all over the developing world. "The stories of stalled progress in industrial cooperation are far more than the instances of success" (p. 27).

Reviewing the industrial cooperation programmes of other regional groupings it is pointed out that only those of the RCD (Regional Cooperation and Development) and the Andean have attained some measure of success. Generally, allocation of industries among member countries have led to complicated negotiations due to sharp differences in the degree of development achieved by various members of the groupings. The tendency has been to recommend location of industries in the economically more developed countries. Other difficulties pointed out include the lack of adequate finance for industrial projects, problems in marketing of output and shortage of facilities for training and manpower development.

Similarly in the case of the South Asian countries it is acknowledged that production cooperation would not be easy for the following reasons (even assuming away for the moment the political factors); (p. 62)

(1) Competitive economies, given the present economic structure. (For instance India and Bangladesh have a common interest in maintaining jute prices, yet they compete fiercely for the same markets abroad. Similar is the case between India and Sri Lanka with regard to tea as also for India and Pakistan with regard to carpets and textiles (p. 129). Another instance is the discriminating attitude of the Government of Pakistan towards India's exports in contrast to the non-discriminatory policy followed by India (p. 132).

(2) Continuing and high level of growth —centre —periphery relationship with the developed countries.

(3) Continuing influence of multinationals of the developed countries inhibiting domestic resource-oriented industrialisation. (South Asian nations face considerable opposition from transnational energy corporation's towards any attempt to achieve energy independence through the development of solar energy (p.252).

(4) Extreme unequal division of economic capability dominated by India and followed by Pakistan (India's GNP and its population are more than three times the size of all the other six SAARC

countries. Consequently there is a feeling that perhaps India will be the major beneficiary from regional cooperation and this may accentuate dependency of other countries in India (p. 128).

(5) Extreme inequality in purchasing power, for example, on the one side is Pakistan with per capita GNP of $260 and on the other side is Bhutan with per capita GNP of $80.

(6) The perception th atproducts from developing countries are of inferior quality acts as a psychological hinderance to production cooperation.

(7) Chronic foreign exchange shortage for acquiring necessary inputs from the developed countries for production cooperation activities.

(8) Resistance from the developed countries' finance institutions to provide financial accomodation to development projects in developing countries which do not call for technologies from the West.

(9) Serious unemployment situation dictates adoption of protectionist policy for development of local industries.

Despite the recognition of all the above factors, despite the explicit akcknowledgement of the fact that the "South Asian economic decision — makers are inadequately oriented towards if not biased against their neighbours" and despite realizing that, "not all problems can be ameliorated through regional cooperation", the papers in Section II dealing with the 'Country Perspectives on Industrial Cooperation' are disappointing in as much as they fail to qualitatively assess in political terms :

(a) the workings of the development policies *within* each of the countries and the inability of these countries to keep their house in order,

(b) the financial — fiscal — industrial (specially defence) nexus that each of these countries has built up, especially with the developed world and consequently the limited autonomy in decision making that they now posses ;

(c) the implications of the differences in the political systems that characterise and govern each of these countires and therefore the mutual distrust and suspicion that dictates their behaviour towards each other despite exhortations to the contrary.

It is futile to make comments such as 'political differences should not come in the way of economic cooperation, or that 'SAARC countries should desist from competing with each other in these items as it would negate their own individual interests', given the tremendous internal and external pressures that face these economies. It is equally futile to expect visible changes of a viable nature to occur in economic cooperation *between* countries before substantial changes occur *within* each nation.

On the whole then, the collection of papers in the volume is useful as a starter and even so far as it delineates the *potential* areas of cooperation between the SAARC nations. The uneasiness stems from the inability of the volume to critically study and analyse the root cause inhibiting *real* cooperation, which exercise, would, infact have called for a different framework of analysis — namely one where politics dictated the prospects for South Asian Cooperation in Industry and Energy.

Padmini Swaminathan

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